Rejected, Shackled, and Alone: The Impact of Systemic Restricted Choice on Minority Consumers' Construction of Self

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This research investigates the experience of systemic restricted choice and its impact on self-concept among racial and ethnic minority consumers seeking financing. Choosing loans is an involved consumer choice journey, and encountering systemic, chronic, and uncontrollable restrictions on choice at any level of the goal/choice hierarchy limits and even prohibits minorities' ability to make desired choices. Across a multimethod investigation, these three studies demonstrate that minorities experiencing systemic restricted choice endure deleterious impacts to self-concept, including framing the self as fettered, alone, discriminated, and subservient, as well as marked reductions in self-esteem, self-autonomy, and self-efficacy. Minority consumers also frame themselves as striving in a world of limited resources and fighting uphill, often losing battles. Juxtaposing the experiences of racial/ethnic minorities against the choice journeys of educationally and economically similar white consumers puts those minority experiences in sharp relief. The theoretical and transformative consumer research implications of these findings are discussed.

The vast majority of consumer research on choice implicitly or explicitly assumes that consumers are free agents able to act on individual tastes and preferences in making choices. However, recent research demonstrates how tenuous this assumption is, given demonstrated heterogeneity in both the ability to choose and the structurally imposed access to choice that consumers encounter (Botti et al. 2008; Crockett and Wallendorf 2004; Giddens 1995; Murray and Ozanne 1991). Markus and Schwartz (2010) illustrate that in modern America, choice defines, expresses, and reifies the self. Having the freedom to choose and the personal efficacy to control one's destiny is central and essential to the American sense of self and a core component of the "American Dream" (Hochschild 1995; McNamee and Miller 2009). Markus and Schwartz further describe how choice is identity expressive and linked to personal values and how people construct their sense of self.

Recognizing that the self is a multifaceted and multidimensional construct, the current investigation focuses on self-concept, or "the totality of the individual's thoughts and feelings having reference to himself [or herself] as an object" (Rosenberg 1979, 7). Prior research has explored how choice affirms the personal values and contributes to construction of an individual's self-concept (Barnhart and Peñaloza 2013; Escalas and Bettman 2005; Kettle and Häubl 2011; Townsend and Sood 2012; Ward and Broniarczyk 2011). Juxtaposing this master narrative in America (in which freedom is choice and the freedom to choose is tantamount to human well-being) with the inconvenient reality that choice in the United States is unequally distributed and, at times, system-

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ically restricted on the basis of factors such as race, ethnicity, cognitive capacity, religion, immigrant status, and so on, begs an important and fundamental question: What is the impact of the experience of systemic restrictions on choice on the self-concept? Little is known about how such denials affect and define the self. Addressing this gap is the purpose of the current research, and racial/ethnic minorities provide the context of our inquiry.

Consumer choices, especially those that require involved consumer decision making (Bagozzi and Dholakia 1999), are not discrete, singular events but rather the culmination of a series of behaviors and choices that enable consumers to arrive at and enact their final choice (Carver and Scheier 1998; Lawson 1997). In this process, consumer choices are motivated primarily by goals and personal values (Bettman 1979); in turn, the goal to make a consumer choice identifies and motivates a series of enabling and subordinate goals (Bagozzi and Dholakia 1999; Carver and Scheier 1998). For example, choosing a financial product to fund an entrepreneurial venture is a process and not a discrete moment in time or even simply a one-choice event. Bettman (1979) notes that making such a choice requires and motivates a series of subgoals (and subchoices) hierarchically arranged that when completed enable a consumer to finalize a choice. That is, choosing a financial product requires a series of behaviors and subchoices that must happen first—investigating loan options, finding potential providers and choosing those to include in the final consideration set, evaluating different attributes of loan products and choosing the attributes on which to rely when finalizing choice, identifying loan requirements, collecting relevant personal information and documentation, and so on. Given the many choices required to complete an involved consumer choice, such as choosing funding for a venture, we view the process not just as a goal hierarchy but as a "choice hierarchy" in which subordinate choices are required by and, in turn, enable superordinate choices.

Most consumer choices are not the end of the process but are in themselves important goal destinations on a journey—a mile marker on a longer path. For example, choosing and securing financing for a small business for entrepreneurs would not be an end in itself but an indispensable choice in creating a successful venture that, in turn, marks a vital step in providing for family and loved ones, being financially independent, and, for many in the United States, living the American Dream.

Encountering restrictions on choice can occur at any subordinate level of the choice hierarchy, directly limiting people's ability to make desired choices and requiring a reworking, and sometimes a reimagination, of the supporting choice/goal hierarchy (Carver and Scheier 1998). Furthermore, experiencing restricted choice inhibits people's ability to reify higher-order goals and choices, which are identity expressive and central to their self-concept. Thus, restrictions on choice require a reordering of goal plans and may also represent a threat to self. For example, a consumer seeking financing for a venture who experiences systemic restrictions on his or her ability either to obtain information about loan products (a subordinate goal) or to choose among different financial providers (because, e.g., many providers in the area act unfavorably toward customers of her or his same race/ethnicity) will also experience systemic restrictions at a subordinate level, which will limit his or her ability to choose a financial product. In turn, this consumer may also perceive this restricted choice as a threat to accomplishing life goals and reifying core values, such as financial independence and self-esteem.

This extreme impact of restricted choice on consumer welfare and goal pursuit has sparked a large amount of investigation on restricted choice in many fields, including psychology (Savani, Markus, and Conner 2008), consumer culture (Sandikci and Ger 2010), behavioral decision making (Iyengar and Lepper 2000), economics (Thaler and Sunstein 2003), sociology (Reay et al. 2001), and law (Camerer et al. 2003). Much of this work has focused on transitory intrapersonal or situational restrictions on choice that (although it is difficult) consumers can potentially negotiate and avoid, thus continuing goal pursuit through the choice hierarchy. Conversely, we investigate "systemic" restricted choice, in which consumers face system-wide barriers because of uncontrollable individual characteristics (e.g., race, ethnicity, skin tone, cognitive capacity, immigrant status). Systemic restricted choice occurs when a consumer is motivated to choose, construes the choice as salient and self-relevant, but cannot finalize the choice because of individual characteristics beyond his or her control that circumscribe his or her ability to make marketplace choices. In other words, consumers face systemic restrictions on choice when they want to make important consumption choices but cannot because of environmental conditions (Dworkin 1985).

The difference between systemic restricted choice and transitory restricted choice and the impact on self-concept is particularly pronounced when dealing with issues related to the race/ethnicity of consumers, as we do in this research. Using distinctiveness theory as an example, it is generally accepted that consumer distinctiveness can exist at multiple levels of analysis, ranging from a spontaneously evoked phenomenon (i.e., transitory) to one that is more chronic and enduring (i.e., systemic). In describing chronic distinctiveness, McGuire and McGuire (1981) hypothesized that a characteristic such as race or ethnicity becomes persistently salient to the self-concept if other people in a person's reference group are continuously different from that person on a given characteristic (Grier and Deshpandé 2001). Individuals react to their everyday situations not only through rational evaluation but also through the "chronically inculcated understandings integral to sense of being" (Henry 2005, 766). Just as chronic distinctiveness can have a significant differential effect on self-concept and self-identity compared to transitory distinctiveness, we argue that systemic restrictions on choice can have a profound and lasting impact on minority consumers' self-perceptions. This impact is due to the chronic and continuing nature of the experience—the choice restrictions are encountered again and again in a context in which the individual characteristic at the source of the restriction (e.g., race/ethnicity) is salient. As such, systemic restricted choice stemming from race/ethnicity is a form of microaggression (defined as brief, everyday exchanges that send denigrating messages to people of color because they belong to a racial/ethnic minority) that racial/ethnic minorities experience on a daily basis (Sue et al. 2007). These chronically experienced microaggressions and rejections affect self-concept, as these daily incidents have a cumulative debilitating effect over the course of a person's lifetime that may result in deleterious impacts to self-esteem, self-efficacy, self-autonomy, and other facets of self.

Among many Western consumers, this kind of systemically restricted choice flies in the face of the pervasive and dominant discourse of freedom, independence, efficacy, and agency (Bellah et al. 1985; Hochschild 1995; Plaut, Markus, and Lachman 2002). However, systemic restricted choice, and thus those who experience it, is a reality in more consumption contexts than is commonly realized. The impact of such an experience on the construction of self is largely unexamined, although the literature hints at some possibilities. Self-determination theory argues that when people encounter conditions in which choice is free of restriction, their sense of autonomy is enhanced (Deci and Ryan 1985). Henry (2005) argues that self-autonomy or empowerment is integral to a positive self-concept and forms a central component of personal well-being. As such, when people strive to affirm their self-concept through exercising self-autonomy but cannot because of restrictions preventing their choice, an increase of negative affect may result (Gal and Liu 2011), diminishing personal well-being (Moller, Ryan, and Deci 2006). Furthermore, Martin and Hill (2012, 1158) argue that a reduction in autonomy will result "only if one's choices are seen as constrained by external forces beyond one's control, which limits or compels people to behave in a manner opposed to meeting essential needs and desires."

Markus and Schwartz (2010, 344) note that "choice defines the self because choice is both the engine of independence and the mark of independence." If choice and, more especially, the ability to choose define the self-concept, is it also true that the systemic restriction of choice defines the self-concept, albeit in countervailing ways? As Markus and Schwartz point out, choice is an important sign or signal of freedom. Thus, does the experience of systemic restrictions on choice become a signal to the self of servitude and slavery? Finally, choice is identity defining and expressive (Markus and Kitayama 2003). Thus, is the systemic restriction of choice identity repressive, curtailing people's ability to reify and express personally salient but culturally challenged aspects of themselves?

To understand the impact of systemic restricted choice on the construction of the self-concept, we investigate the experience of consumers seeking access to financial services. Financial services is an ideal context in which to explore the experience and consequences of systemic restricted choice because access to capital is an essential node in the goal hierarchy, in which the achievement of financial freedom and thus the American Dream are desirous higher-order values (Bernthal, Crockett, and Rose 2005; Peñaloza and Barnhart 2011). We investigate how minority status resulting from the salient and yet uncontrollable factor of one's skin tone or race/ethnic background influences consumers' experience in seeking financial service products. Specifically, we strive to understand the experience of systemic restricted consumer choice and how it alters and affects self-construction among majority and minority consumers. Theoretically, the understudied nature of systemic restricted consumer choice needs to be addressed and understood at a level that is both richer and more grounded in the lived experiences of consumers. In turn, this work is an effort in transformative consumer research (TCR), or "research that benefits quality of life for all beings engaged in or affected by consumption trends and practices across the world" (Mick et al. 2011, 6). Thus, this research directly aims to address the overlooked but highly important idea of systemic restricted choice and its impact on self, through a TCR lens. We attempt to highlight a real and current concern that, as we show, dramatically affects minority consumers and their multifaceted sense of self.

We conduct a multimethod study design, triangulating a field study, qualitative depth interviews, and an online experiment, to demonstrate that the experience of systemic restricted choice affects people's construction of self and that majority and minority consumers differ in the outcomes and impacts to their self-concept (Price and Arnould 1998). We show that these outcomes erect perceived and actual access barriers to products and services for minority consumers. We first present a mystery shopping field study (study 1) in which we substantiate the occurrence of disparate treatment by bank officers toward minority consumers, which then leads these consumers to experience systemic restricted choice at an early level in the choice hierarchy. We then explore the experience of systemic restricted choice in a qualitative depth interview study (study 2) in which we find differences between minority and majority consumers and detail the impact of systemic restricted choice on the self for minorities. From the findings of our qualitative work, we conduct an experiment (study 3) to test how two specific facets of self—self-esteem and self-autonomy—are affected when a subtle prime makes race salient when experiencing a choice restriction. From these studies, we identify both theoretical insights and future research opportunities.

STUDY 1: MYSTERY SHOPPING FIELD STUDY

To demonstrate and establish the experience of systemic restricted choice, we first investigate whether racial and ethnic minority (i.e., Hispanic and black) consumers differ from majority (i.e., white) consumers in the actual treatment they receive from loan officers in the marketplace for small business loans. For example, if minority consumers are demonstrably treated differently at any stage in their financial choice journey, it would restrict their ability to accomplish the subgoals required to finalize their financial product choice. From a vulnerable population and marginalized consumer perspective (Baker, Gentry, and Rittenburg 2005; Crockett and Wallendorf 2004; Hill 1995; Peñaloza and Barnhart 2011), racial and ethnic minority consumers often feel out of place, unwelcome, and up against all odds when attempting to transact business in the marketplace. This may be due to the interaction of individual (e.g., a person's race) and social (e.g., structural or societal barriers) characteristics or even locational characteristics of how a business chooses to serve minority consumers (e.g., retail redlining; D'Rozario and Williams 2005). Racial marketplace disparate treatment refers to differential treatment of consumers in the marketplace on the basis of race or ethnicity and constitutes denial or degradation in the products or services offered to them (Harris, Henderson, and Williams 2005). Although the term "minority" can be used to categorize people on the basis of race, ethnicity, religion, age, disability, and sexual orientation (Schaefer 2010), we refer hereinafter to minority as individuals or a subpopulation of individuals who because of their racial and ethnic backgrounds experience or may be subjected to disparate treatment or discrimination. Conversely, we use the term "majority" interchangeably with the dominant racial or ethnic group (Williams and Henderson 2011). In Western cultures, including the United States, majority is commonly used to refer to the Caucasian or white subpopulation.

Although research indicates that both minority and majority consumers believe that marketplace discrimination occurs (Gabbidon and Higgins 2009; Norton and Sommers 2011), reliable data are not readily available to confirm the actual existence of such marketplace discrimination that would lead to the experience of systemic restricted choice at any stage in the choice journey. Relying solely on perceptions of discrimination to ascertain the extent of marketplace discrimination can be problematic. Identifying racial discrimination is more difficult today given that its expression is rarely overt. Because modern racism is subtle and therefore hard to detect, potential incidents of discrimination can be attributed to factors other than racism. Therefore, we investigate the experience of systemic restricted choice and the degree to which discrimination occurs in the marketplace and, especially, in banking settings in which self-employed minority consumers attempt to gain access to capital to support their businesses.

Method

We conducted a mystery shopping field study to assess whether disparate treatment due to racial differences occurs in a setting that has the potential for systemic restricted choice. Mystery shopping audit studies have been conducted in a variety of service sectors (Finn 2007) to detect discrimination, such as in the case of car shopping (Ayres and Siegelman 1995) and renting an apartment or purchasing a home (Galster 1991; Yinger 1998). Prior academic research has also employed mystery shopping methods to capture factual evidence beyond just perceptions of the experience (Ainscough and Motley 2000; Finn 2001). Precedent exists for using mystery shopping in discrimination lawsuits in the United States that assess employee and firm performance to determine whether consumers receive differential treatment in the "process" of requesting products/services (Lubin 2011). Many service organizations also employ mystery shopping research techniques to assess service performance (Finn and Kayandé 1999; Van der Weile, Hesselink, and Van Iwaarden 2005). Financial institutions regularly conduct mystery shopping studies in response to and in prevention of fair-lending violations (Lubin 2011). For example, banks regularly conduct mystery shopping tests to mitigate the risks and penalties resulting from routine regulatory and compliance audits.

We directly investigated racial differences in the treatment of consumers by banking institutions and their employees. We investigated the potential for disparate treatment of minority shoppers during the preapplication (or loan inquiry) stage of a loan application at a commercial bank. Gaining financial product information is a necessary and important subgoal in the choice hierarchy for choosing a financial provider; in turn, this choice is required for the higher-order goal of choosing a financial product to fund a small business venture. We conducted 69 tests in the locations of seven national banks located in a 20-mile radius of a major metropolitan city in the western United States. We recruited, interviewed, and selected three black, three Hispanic, and three white small business owners from the local chambers of commerce and small business centers as testers. Doing this ensured that the testers were familiar with and knowledgeable about basic business and banking terminology and language, the local geography, and economic conditions. In total, we recruited nine male testers who we matched and pretested on critical personal characteristics (e.g., age, height, body build, attractiveness, education; Ainscough and Motley 2000; Lubin 2011). All testers wore matching styles of a black or blue polo shirt and khaki trousers. Matching testers on these personal characteristics enabled us to compare the outcomes of the tests by racial status.

An initial profile of a basic loan request and borrower characteristics was drafted by a professional financial service research consultant. We solicited feedback on the profile's details from four academic marketing research experts. The profile outlines a loan request of $60,000 by a small business owner in the computer services industry who wants to expand by opening a new office. Because the random study design enabled testers from each race category to shop each bank location, we slightly modified the distinguishing characteristics of the loan request and borrower characteristics, including the consumer's name, the company name, and the requested loan amount ($60,000, $65,000, or $70,000). We did this to reduce the chance that testers would be detected as mystery shoppers. Thus, the profile the different testers used was essentially identical.

Testers were trained to conduct each test and shown how to capture and record the pertinent information needed to complete a survey questionnaire immediately after each visit. Testers were told that they were conducting a study on customer service; at no time were the testers made aware of the real purposes and details of the study. Testers were assigned to visit each bank on a prescribed day and time. On entering the bank, they stated that they were interested in meeting with someone about a loan for their business. In most cases, the testers were directed to a bank loan officer from whom they gathered information on available loan and financial products. Consistent with the preapplication tests used by regulatory agencies and the courts (Lubin 2011), testers listened and gathered the information provided about the options, availability, and terms of the financial products discussed. After the testers completed each bank visit, they completed a paper-and-pencil questionnaire in their vehicle before proceeding to their next visit. The questionnaire measured three classes of the consumers' experience with bank officers, including the information provided, the information required for loan application, and the encouragement and assistance demonstrated to the consumer. We selected the measures on the basis of their legal precedent and regulatory usage (Lubin 2011).

First, we measured the information provided by asking the testers to indicate (yes or no) whether they received the following information: loan interest rate, loan fees, and loan terms. We chose this product information because it is the most common type of information provided in consumer and small business lending and should not vary, regardless of the consumer's race/ethnicity. Consequently, testing for racial differences in whether this information was provided serves as a conservative test of racial disparate treatment. Second, the information bank officers require should not vary. Thus, testers indicated (yes or no) whether they were asked about any of the following information: business financial statements, business income tax filings, business bank account information, personal savings and investments, credit card debt, and auto loan debt. These measures capture whether consumers encounter a similar standard of scrutiny when applying for a loan. Third, testers responded to four questions that assessed the objective levels in the encouragement and assistance given by the bank officer. Testers indicated (yes or no) whether the bank officer had introduced him- or herself, offered to help them complete the application, offered them a business card, and offered them help with future banking needs.

Results

We analyzed the data using the chi-square difference test on the proportions of reported values for white and minority observations. We compared whether the white majority differed from minorities in the information provided, the information requested, the level of encouragement, and assistance and courtesy shown. The results for the information-provided dimension reveal significant differences between white and minority observations. Specifically, compared with minority testers, white testers were more frequently provided product information on loan fees (59.1% vs. 25.9%; χ^2 = 5.52, $p < .05$) and loan terms (52.2% vs. 27.5%; χ^2 = 3.84, $p < .05$). Whites were not quoted an interest rate significantly more frequently than minorities (82.4% vs. 61.5%; χ^2 = 2.11, p = .13).

Next, we compared differences in the information requested by the bank officer. The results show that minority testers were asked to provide more information about their businesses and personal financials than white testers. Compared with white testers, minorities were more frequently asked to provide financial statements (82.8% vs. 50.0%; χ^2 = 6.24, $p < .05$), tax returns (86.2% vs. 52.4%; χ^2 = 6.91, $p < .01$), and bank account information (25.0% vs. 0.0%; χ^2 = 6.13, $p < .05$). Compared with their white counterparts, minorities were also more frequently asked about personal savings and investments (60.5% vs. 21.7%; χ^2 = 8.68, $p < .01$), credit card debt (42.5% vs. 13.0%; χ^2 = 5.85, $p < .05$), and auto loan debt (32.5% vs. 8.7%; χ^2 = 4.56, $p < .05$).

The results also reveal differences in the level of encouragement and assistance offered to minority testers. Compared with their white counterparts, minorities were less frequently offered help to complete the loan application (18.18% vs. 59.1%; χ^2 = 18.18, $p < .001$), offered a business card (42.9% vs. 81.8%; χ^2 = 8.91, $p < .01$), or offered help with future banking needs (42.9% vs. 68.2%; χ^2 = 3.71, $p < .05$).

Discussion

Results of a mystery shopping field study reveal that bank loan officers treat white and minority consumers differently in the early stages of their choice journey to choose financing. We find that white and minority consumers do differ across three classes of actual measures of consumer experiences with loan officers: the information provided to them, the information required from them to apply for a loan, and the encouragement and assistance demonstrated to them. With other factors controlled for, and with the only material difference between customers being race and ethnicity, minority consumers were treated differently and more poorly. These findings are both illuminating and discouraging; they suggest that systemic restricted choice is real in the actual experiences of minority consumers at an early level in the goal hierarchy for choosing financing for their small business.

STUDY 2: QUALITATIVE ZMET INTERVIEWS

The results of study 1 detail disparate treatment among minority consumers in the financial services marketplace compared with white consumers. Thus, this marketplace is a context in which systemic difference in treatment between white and minority consumers occurs during an early stage in the choice journey, in which the goal of gaining choice-relevant information is active. With the focus of the research on the impact of systemic restriction on the self-concept, to extend the investigation, we turned to depth interviews with minority and white consumers to understand their broader experiences when seeking small business financing. From study 1, we know that disparate treatment does exist in the financial marketplace, but additional reasons explain why this is a good context for inquiry. As a group, entrepreneur consumers highly value achievement, autonomy, and personal freedom as aspirations, personal values, and life goals (Stewart et al. 1999). In many ways, these consumers embody the independent model of the self (Markus and Schwartz 2010), in which the abilities to choose, take risks, exercise initiative, and live a life of autonomy are core values that help define their self-concept and motivate personal action. As such, they have embraced the American narrative of the independent self that strives for freedom, independence, and self-determination (Markus and Schwartz 2010). Thus, this group is useful to study to gain a deeper understanding of the impact of systemic restricted choice on the construction of self.

Method

We employed the Zaltman Metaphor Elicitation Technique (ZMET; see Zaltman 1997), a semistructured, depth interview format that focuses on exploring the lived experiences of informants and gaining insights into their emotions, beliefs, and values. This approach is recommended for exploring deeply held and widely shared cultural models founded in deep, embodied metaphors (Keller 1997; Ringberg, Odekerken-Schröder, and Christensen 2007). We purposefully sampled (Patton 1990) informants to represent three racial/ethnic groups of self-employed consumers: white/Caucasian, Hispanic, and African American. In total, 39 informants who owned a small US business agreed to participate in this study. Of these, 16 were white, 13 were Hispanic, and 10 were black. Participants' ages ranged from 26 to 68 years, and 30 were men. Although we recognize that gender also represents a characteristic that can lead to discrimination (i.e., female entrepreneurs may be more likely to experience systemic restricted choice in accessing capital than are male entrepreneurs), in this study we only examine restricted choice based on race and ethnicity.

We also worked to ensure that minority and white consumers were comparable on key demographics. For example, 8% of both minorities and whites had a household income greater than $150,000, and 6% of whites and 5% of minorities had an income less than $20,000. We also compared the sample on education levels. Fifty percent of whites had completed a bachelor's degree, compared with 59% of minorities. Finally, gender was reasonably equally distributed across the white and minority groups. Table 1 provides additional details about the informants.

Consistent with the ZMET protocol, informants were asked to prepare for the interview by first thinking about the research question. Specifically, they were asked to think about their experiences seeking financing for their entrepreneurial business. They were then asked to collect eight to 10 pictures that represented their thoughts and feelings about seeking financing for their businesses and to bring them to the interview. Interviews followed the various steps and activities of the ZMET interview protocol and were conducted by interviewers trained in the methodology and familiar with the ZMET process. Interviewers were matched to the informants according to their race and language of origin. This step helped enhance conversational flow and ensure cultural sensitivity.

Interviews began by asking the respondents to choose their first picture and explain how this image represented their feelings about the experience with seeking financing for their business. As the respondents explained the meaning represented by the photo, the interviewers, trained to hear vivid metaphors mentioned by (elicited from) respondents, probed for further elaboration on those metaphors. To ensure understanding, the interviewers also used reflexive interviewing techniques, such as restating informants' comments and summarizing to ensure comprehensiveness and understanding in the voice of the respondent (Athos and Gabarro 1978; Roger and Farson 1984). We transcribed the results of these interviews into several hundred pages of narratives and used them as the data set in subsequent analysis.

Our interpretive analysis broadly followed the open-coding techniques of grounded theory development (Strauss and Corbin 1990). We began the analysis with a careful and rigorous construct coding of each informant's narrative at a level of analysis close to the voice of the respondent (Van Mannen 1979). We linked these constructs with one another according to the flow and discourse of the narrative. This process followed a constant comparison method of interpretation to ensure that construct codes were well grounded in the voice of the respondents (Strauss and Corbin 1990). The coding process produced hundreds of unique meaning constructs. We collapsed common constructs into categories and again into overarching and collective themes. In turn, we traced these themes back to undergirding and embodied deep metaphors. Finally, we juxtaposed the metathemes across racial and ethnic groups to explore the impact of the experience of systemic restricted choice on the self. Because minority consumers are the most vulnerable to systemic restricted choice, we wanted to gain a deeper understanding of the experience of restricted choice between minority and white consumers. This analytical method enabled us to better understand the experience of restricted choice and identify the outcomes and impacts on the self emanating from the experience of systemic restricted choice.

Findings

Key Deep Metaphors: Orientation and Journey. "She has both arms in the air. She's smiling. There was like a bright, sunny background. You know, she just looks joyous." This comment describes a picture that a black female consumer brought to the interview. The picture represented "winning the battle but not the war" for the informant. Specifically, in the choice to finance her business, an important subgoal became salient and paramount for this informant —the need to repair her bad credit. She recognized that she

TABLE 1

STUDY 2: ZMET PARTICIPANTS' DEMOGRAPHICS

Race	Gender	Age	Immigrant	Household income	Highest education completed	Industry	Received loan	No. times rejected
Black	Male	29	No	$50,000–$59,999	Some college	Construction	No	4
Black	Female	34	No	$50,000–$59,999	Master's degree	Education	No	1
Black	Male	53	Yes	$80,000–$89,999	Bachelor's degree	Security	No	6
Black	Male	43	Yes	$130,000–$139,999	Some college	Computer networking	No	5
Black	Male	40	No	$110,000–$119,000	Bachelor's degree	Consulting	No	5
Black	Male	32	Yes	$30,000–$39,999	Bachelor's degree	Security	Yes	3
Black	Male	51	No	$150,000+	Bachelor's degree	Construction	No	5
Black	Female	38	No	$70,000–$79,999	Bachelor's degree	Creative design	Yes	1
Black	Female	40	No	$50,000–$59,999	Some college	Construction/painting	No	0
Black	Male	52	No	$60,000–$69,000	Bachelor's degree	Commercial photography	No	4
Hispanic	Male	36	No	$110,000–$119,000	Bachelor's degree	Publishing	No	1
Hispanic	Female	37	Yes	$30,000–$39,999	Master's degree	Construction	No	0
Hispanic	Male	38	Yes	$100,000–$109,000	Some college	Wholesale beauty products	No	6
Hispanic	Male	47	No	$150,000+	High school	Construction/roofing	Yes	4
Hispanic	Male	39	No	$90,000–$99,000	High school	Computer services	No	8
Hispanic	Male	32	Yes	$150,000+	Bachelor's degree	Design/marketing	No	0
Hispanic	Female	41	No	$20,000–$29,999	Bachelor's degree	Video/marketing	No	1
Hispanic	Male	54	Yes	$50,000–$59,999	Some college	Pest control	No	2
Hispanic	Female	43	Yes	Below $20,000	Bachelor's degree	Marketing communications	No	9
Hispanic	Female	40	Yes	$40,000–$49,000	Some college	Restaurant	Yes	1
Hispanic	Male	42	Yes	$40,000–$49,000	Bachelor's degree	Restaurant	Yes	1
Hispanic	Male	41	Yes	$40,000–$49,000	Some college	Restaurant	Yes	2
Hispanic	Male	55	No	$50,000–59,999	Some college	Retail	No	4
White	Male	46	No	$70,000–$79,999	Bachelor's degree	Computer software	Yes	0
White	Male	31	No	$40,000–$49,000	Some college	Aircraft sales and flight training	No	1
White	Male	56	No	$150,000+	Bachelor's degree	Manufacturing	Yes	4
White	Male	48	No	$110,000–$119,000	Some college	Construction/electrical	Yes	0
White	Male	26	No	$120,000–$129,000	Some college	Restaurant	Yes	0
White	Male	68	No	$140,000–$149,000	Some college	Commercial aviation	Yes	0
White	Female	35	No	$90,000–$99,999	Bachelor's degree	Business financial services	Yes	2
White	Male	38	No	$120,000–$129,000	Bachelor's degree	Marketing/advertising	Yes	0
White	Male	48	No	$130,000–$139,999	Bachelor's degree	Beauty/spa services	Yes	0
White	Female	52	No	$70,000–$79,999	Some college	Education	Yes	0
White	Male	62	No	$120,000–$129,000	Bachelor's degree	Printing	Yes	0
White	Male	27	No	$150,000+	Some college	Food catering/retail	No	1
White	Male	40	No	$40,000–$49,000	Some college	Auto repair	Yes	1
White	Male	62	No	$150,000+	Bachelor's degree	Construction/electrical	Yes	0
White	Male	56	No	Below $20,000	Bachelor's degree	Auto repair	Yes	0
White	Male	42	No	$70,000–79,999	Some college	Retail	Yes	0

needed to accomplish this subgoal before she could finalize her superordinate and yet central goal of choosing and securing financing for her business. She worked on this subgoal for more than 5 years and finally "straightened up my credit." This was an essential mile marker on her path. On reaching the "finish line" of repairing her credit, she said that it gave her a major "sense of accomplishment" that, in turn, gave her hope that things would work "more smoothly" as she continued her journey to secure financing. Importantly, choosing financing was not the end but rather another finish line on "the road" to an even larger goal of starting to "make the money" with her small business. In turn, she said making money would signal a successful business and give her a sense of accomplishment that she was being productive and "doing something." At the same time, accomplishing these higher-order goals would help her be a better mom who could (1) provide for her family and (2) teach her children important life lessons about perseverance. She summarized her choice journey through her goal hierarchy as follows:

> What I thought of was the tortoise and the hare. I thought about the turtle and how slow it was, I knew down the road, there would be a point where, okay, everything is paid off and now I can kind of start over again. So I finished that aspect of my life, where I was in debt and now I can start over. I don't know if there's an ultimate finish line. I guess maybe that's when you retire. But I guess there is a finish line for each point in your life or each goal, you know, that you have in your life.

The respondents, both white and minority, were all involved in the choice journey of seeking financing for their small business. For these consumers, choosing a financial provider and a financial product to fund their entrepreneurial venture was a long and involved journey. The journey required a series of subgoals and subchoices along the path to try to make a final choice that would secure financing for the continuation and growth of their businesses. These consumers used metaphors such as "Getting loans is like a meandering path," "It's like being stuck in traffic," and "It's a road race." All these verbatim examples point to a deeper and commonly experienced framing as a journey to choose and secure financing.

Journey is a deep metaphor (Zaltman 1997; Zaltman and Zaltman 2008) or universal orientation that the respondents used to understand and make meaning of their experiences seeking financing. A multifaceted view of this journey lies at the intersection of the deep metaphors of *journey*, *resource*, and *force* that are all present in the data. For all the consumers, seeking financing is a journey for resources that, in turn, required resources to accomplish the journey. As with other life journeys, this journey had starts and stops and detours and differing destinations along which the consumer encountered myriad forces that hindered or furthered progress.

When comparing the ZMET findings of minority consumers with white respondents, we found that both groups commonly referenced the journey metaphor, including being stuck in traffic and needing to cross a convoluted set of crisscrossing railroad tracks. However, through the course of the research, fundamental differences emerged in comparing the choice journey narratives of the white and the minority consumers. One important point of departure involved another deep metaphor, *orientation* (Zaltman and Zaltman 2008). The minority consumers framed the journey as uphill, while white consumers consistently framed their journeys as on level ground. For example, a white male consumer said,

> Seeking financing is like a long triathlon. You are glad to come out of the water and finish a segment and it is very hard and very tiresome, but then when I came out of the swimming, I still knew I had a couple more things I needed to get done before I'd feel at peace with myself. It was very, very difficult and something I didn't enjoy doing very much. . . . It is like swimming in a cold lake. Sucks all the energy out of your body . . . *but you can see the other side*. (Emphasis added)

This journey, although difficult, is tractable and conveys a sense of progress across the journey and a sense of self-efficacy (Bandura 1997) in being able to "see the other side." In contrast, a black male consumer said,

> It's like climbing Mount Everest—close to impossible. Only a few people have done it. And only people who can do it [are those that] have help from people who have done it before. And I don't know those people. I don't know any people who have actually gotten loans, and no one who wants to help me or can show me the process they went about to get the loan. *I can't get to the top of Mount Everest.* (Emphasis added)

This pervasive difference in the orientation framing of the experience between white and minority consumers most strikingly occurs in the images brought in to describe their journeys and goals. Minority consumers brought in photos that were consistently oriented from the bottom looking up, while white consumers presented pictures evidencing a level or even top-down orientation; such pictures (from a level or top-down perspective) were not present in the narratives of minority consumers (for illustrative examples informants provided, see fig. 1).

Minority consumers thus framed seeking small business loans as an uphill journey that is both daunting and unknown (Zaltman and Zaltman 2008). By framing with the deep metaphor of bottom-up orientation, minority consumers show a lack of both self-efficacy in and control over (Bagozzi and Dholakia 1999) the journey not present in the level-ground framing of white consumers. Orientation is a powerful deep metaphor. Given the embodied cognition of thoughts grounded in deep metaphors, a bipedal being that is "down" may be sick, sleeping, or dead. However, standing on two feet is active and alive. In general, in the embodied schema of orientation, being in a "down or below" position is bad, and being "up or above" is good (Johnson 1987). This embodied schemata acts as a deep metaphor for understanding many domains in life, such as religion (heaven is up, and hell is down) and mood ("He is feeling down today"). One Hispanic male consumer, whose image appears in figure 1, summarized this as follows:

> The door's not open to us. They don't say, hey, come in, the door's open, not to the Latino community. *So if you can't go through the door, you got to scale the building.* And I think in the Latino community, number one superhero in our community is Spiderman. Why? Because a lot of Hispanic people would love to be able to scale a building, be able to not go through the normal door, to be able to scale, and *I feel like sometimes it's like going up a hill.* (Emphasis added)

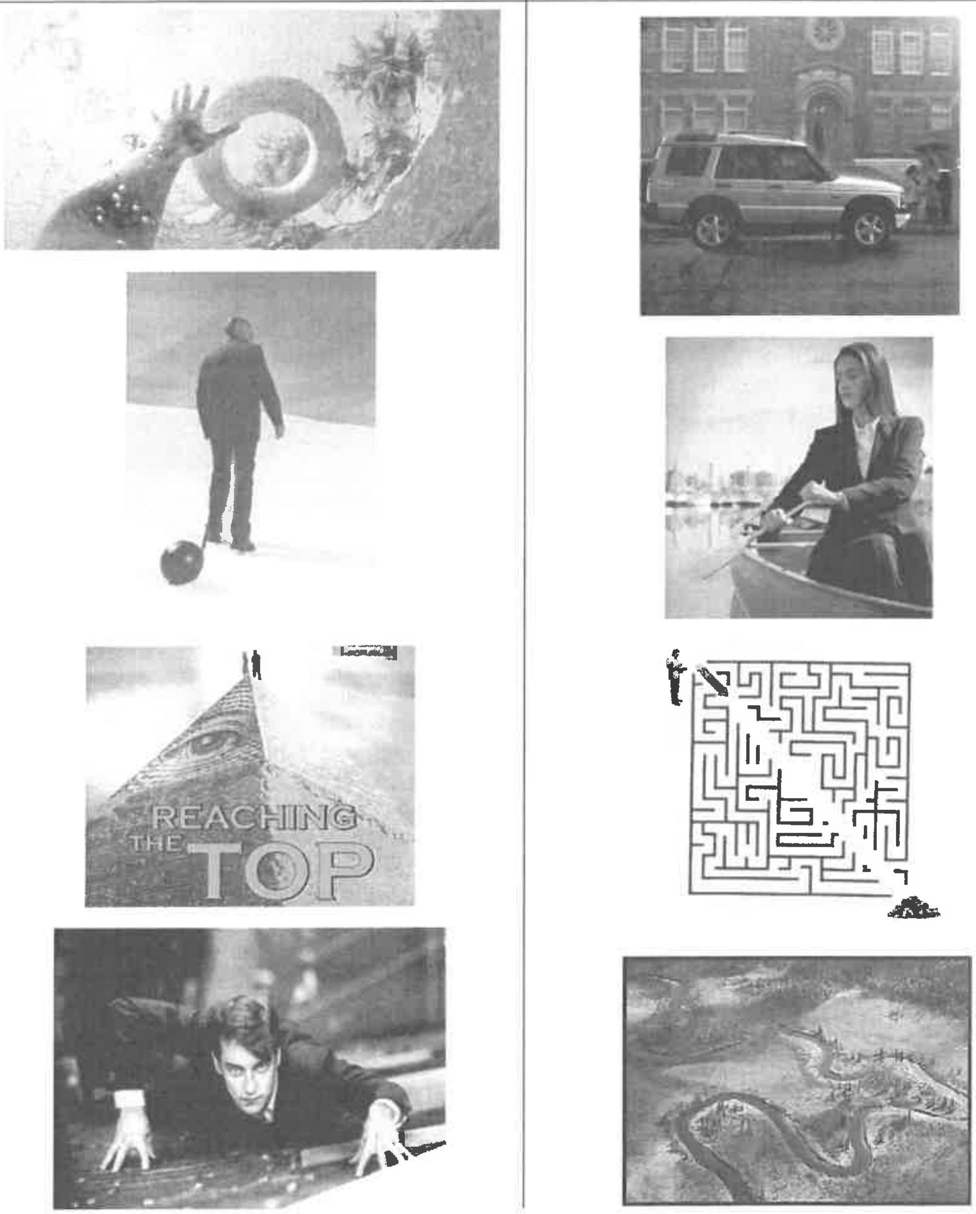
We find a duality in meaning in the use of this deep metaphor across consumer groups. Although all the consumers framed seeking financing as a journey, it was not equivalently referenced. White consumers experienced the journey at eye level across even terrain, while the minority consumers framed seeking financing as a difficult and often treacherous uphill battle with unlikely prospects. This fascinating pattern of each consumer group using the same or similar metaphors orthogonally to describe their experiences occurred frequently in the data, and we present additional examples subsequently. By juxtaposing the white and the minority experiences in their choice journey seeking financing, we provide an analysis that throws into sharp relief the deleterious impacts on multiple facets of self that minority consumers experience in the wake of systemic restricted choice.

To organize these findings, we present differences in the overall framing of the choice journey between the two groups and also divergences in subgoals and subchoices in which whites and minorities engage at different stages of the journey. Finally, we describe the outcomes and impacts of systemic restricted choice on the multifaceted self-concept.

FIGURE 1

STUDY 2: COMPARING THE ORIENTATION FRAMING OF MINORITIES AND WHITES

Illustrative Examples Provided by Minorities	Illustrative Examples Provided by Whites



Divergence in Subchoices: Identifying and Choosing Lender Attributes. For all the respondents, the goal of choosing a financial product and thus securing financing for their small business was paramount. However, key differences emerged in how whites and minorities framed this involved choice journey, the subgoals they pursued, and the subchoices they believed needed to be made to successfully finalize this choice. For example, both groups reported selecting a financial provider as an essential subgoal in the choice hierarchy. In turn, a requisite subchoice for all respondents was identifying and choosing the attributes of that financial provider that would be most important and relied on when finally choosing a provider to seek a loan. Key differences emerged across respondent groups; white respondents often referenced seeking a lender to be a "partner" who would be an "equal" and a "friend" in the goal of building the entrepreneurial venture. For example, one white respondent said:

> I think that my banker has to have vision. And so do I. And he has to have character and so do I because I don't want to work with him if he doesn't. I think he has a right to expect results in terms of my performance. I have to bring to the table something of value to the bank and they have to in turn give me something of value. Next word is relationship, and I have to establish the relationship not only with my primary banker but with his boss and then he has to establish a relationship with me so that he knows that when I say this is what it is, that's what it is. I have to treat him with dignity and respect and that's an expectation for me that I be treated with dignity and respect. If my banker can't or doesn't have the vision to see where I'm going, then I'm wasting my time. . . . If I don't see these qualities in the banking relationship then I probably ought to look for another bank.

Reciprocity, respect, and a good relationship were some of the key attributes the white respondents required in selecting financial providers. These respondents also sensed that they had many options to choose from and, if they found a provider lacking in an important quality, they could and would find another. As one white female respondent noted, "Because there are so many choices, I am uncertain which one is the right choice."

Encountering an overabundance of lending choices was not a characteristic any minority consumer described, and although these informants expressed the desire to find lenders that would partner with them in a reciprocal relationship, this was not a choice criterion they used in bank selection. Rather, they employed other criteria that were absent from the white respondent interviews, such as ethnicity friendliness. For example, many minority respondents reported trying to find a "minority lending company." One respondent searched for a "personal bank" because there was "no hope" with the big banks. Indeed, for many of the minority informants, the subchoice of choosing a lender came down to choosing any lender that would be willing to seriously consider a minority application. Because of the systemic restrictions minority respondents encountered, when they pursued the subgoal of searching for providers, they cast a much wider net by necessity than the white informants. Taken together, this represents a more restricted framing of the marketplace for these minority consumers and a more restricted self-view of their position within that marketplace. For white consumers, the choices can be overwhelming, while for minority consumers, the lack of choices can lead, as shown subsequently, to a restricted sense of self-efficacy and a feeling of limited control in a world viewed as presenting few if any choice options.

Divergence in Subchoices: Playing Big with Self-Presentation. Not only does the experience of systemic restricted choice influence their selection of banks, but minority consumers also must make a subchoice to "play big" in terms of how they present themselves professionally in their business, particularly when approaching potential financiers. The minorities commonly described an array of self-presentation strategies in their visits to banks. For example, they readily described the subchoices of "dressing up," wearing a "suit," wearing a "tie," and "carrying a briefcase" to signal to lenders their professionalism and credit worthiness. One Hispanic informant described his choice of business attire as his "tool" and "weapon."

Comparatively, only a few white consumers referred to a subchoice of choosing what to wear when seeking financing. One white informant described how he initially made the subchoice to wear business attire but, on learning that it was not necessary for his success, removed this subchoice from his personal choice hierarchy:

> Well, the first time I went to the bank, I dressed up, had a suit and tie on, and I thought you know [you] got to put your best foot forward but really not sure and got there and realized I could have come in jeans and T-shirts and it really wouldn't have mattered. . . . *So at first I was nervous to look right and now I'm not nervous to look right. I'm going to go into the bank looking however I want.* (Emphasis added)

As another self-presentation strategy, the minorities used rented or borrowed capital equipment to play big and to signal to bankers and the broader business community their ability to deliver as businesspeople. Minorities described borrowing computer equipment, construction materials, cameras, and other material goods as an attempt to level the playing field in their choice journey. One Hispanic male mentioned that in preparation for a meeting with a lender, he rented a large dump truck and purchased a magnetic sign to place on the truck to signal he had capital and experience to qualify for a loan.

Minorities also described a subchoice of hiring white partners and employees to accompany them to critical meetings with potential lenders. One black informant described the difficulty of getting past his skin color and his decision to hire a white friend to play the role of his business partner in a meeting with a lender. Another black informant described how he hired a white employee to help him gain the respect of his predominantly white clientele and how this choice also affected how he was treated by his bank:

> I send [name of white employee] to the bank with my cash and checks to put in my account. The interesting thing is I've been banking at [name of bank] now for probably the last four years. It wasn't until last year that one of the bank managers came up to [name of white employee] and started talking to him about investments. Now meanwhile, I know the same bank manager. . . . They've never . . . you know, addressed me. But they're seeing [name of white employee] coming into the bank, but they approach him, but no one has ever approached me.

The creative acts of minorities to play big using self-presentation strategies were unique from the experiences of whites. Underlying the subchoices minorities made to put their best foot forward were self-presentation strategies exercised to offset their racial self-identity. The salience of their race/ethnicity directly affected the self-presentation choices they made to disguise or attempt to counterbalance their racial identity. This behavioral pattern of employing various "props" to augment their self-presentation demonstrates a lack of self-confidence in the process and a diminished sense of self-capacity and efficacy relative to their white counterparts.

Divergence in Framing the Choice Journey. The minority and white consumers expressed markedly different framings of the choice journey to obtain financing for their businesses. As previously mentioned, minority consumers frame the choice journey as an arduous climb with uncertain and even unlikely prospects, while their white counterparts describe the journey at eye level across even ground. Both white and minority consumers again used identical metaphors to frame the financial resources they sought—securing a "financial pipeline" for their businesses. References to water slides, drinking fountains, faucets, pipelines, and irrigation were mentioned and repeated across the comparison groups. Imposing a direct juxtaposition of the use of this money-as-a-liquid metaphor across the groups yields a duality in the pattern of deeply held beliefs and attitudes toward the availability of resources and highlights this difference in framing. White consumers expressed their fortune of tapping into a "well" of financial abundance. For example (emphasis added):

> He's in the Sahara Desert. . . . *If he didn't have any money to buy water*, he didn't have any money to buy a vehicle, or a camel, or whatever, *once he goes to the bank and secures the financing, then he can go purchase those other goods* to complete his mission or his operation to move the business.
>
> Well it's a *pipeline*, financial pipeline, and in my perception of just how it worked out, generally *it was a fairly easy process* and it was *easy to come to a choice.*

These representative quotes describe a sense of self-efficacy and autonomy in a process that is viewed as tractable. For these white consumers, the journey is a difficult one through a desert where financial water flows, at opportune times, enabling the completion of the mission and the survival and even growth of the venture.

Minority consumers employed the same liquid metaphors. However, their use of liquid revealed a strikingly different meaning pattern (for a comparison of exemplar images, see fig. 2). A black male respondent presented a drawing of a dripping faucet. He described his capital-seeking experience as being like a faucet that barely dribbles financial resources:

> You could look at it one way and say that it's leaking. But I'm looking at it from the point of view of that *it's a faucet and it has dribbles of water coming out of it. It's not wide open* and it's not going to fill the sink or whatever. It's just dripping water out. To me, again, it means that when you go to these companies, these lending establishments, even when they say okay, we're going to lend you this money or whatever, *they dribble, you know, they drip the money out. They don't open the faucet.* (Emphasis added)

One Hispanic male consumer presented a cartoon of a sailboat in a dry and barren reservoir with a pipeline that is slowly trickling water into it. The water is the needed resource for the mobility, growth, and direction to achieve his goals.

> The water represents the money that I need to borrow to fulfill those goals that I know I can do. *That water can only come from those loans and it's not much.* It's hardly any. So I cannot go anywhere. . . . *They close the doors and say, "No we don't have a loan for you."* (Emphasis added)

Again, both groups employed the same metaphor to express nearly opposite feelings. For the majority consumers, the choice journey secures a pipeline that enables access to a flow of resources; for the minority consumers, it is a broken faucet that dribbles in tantalizing but unsatisfying ways. This again represents a more restricted framing of the marketplace (relative to their white counterparts) and the likelihood and availability of resources it affords to these minority consumers. This is in turn a facet of a self-concept or self-image, which is more limited, circumscribed, and restricted (cf. Henry 2005).

Divergence in Framing the Self. The data reveal that minority and white consumers also differ in how they frame their position in the financing process. A poignant outcome of minority consumers' experiences of systemically restricted choice is the negative self-views they use to frame themselves and their roles in the choice journey to seek financing. These self-views include being a "pauper" versus a "prince" and experiencing "slavery" versus "freedom."

According to the data, minority consumers characterized themselves as paupers—a "homeless person with no protection" and someone who must "crawl back" to the bank in the hope of obtaining accurate information. This subordinated self-framing is evident in the following minority respondent narratives (emphasis added):

> Sometimes I truly feel that even though we have combined the financial position and we have the down payments and everything that *we [are] still begging the bank for the money*—even though we know that we were in position to pay the money back and pay the monthly payments. (Hispanic male)

> He [the banker] only cares about, you know, the dollar sign. I kind of feel like that kind of little person approaching, you know, like, this big institution, you know, saying, *please, please, please, you know, notice me, hear me.* (Black female)

As these examples reveal (for representative images, see fig. 2), minority consumers' references to poverty are culturally embedded—a projection of their psychological state of mind to cultural reference points of the homeless or impoverished. Framing themselves in the position of a pauper marks an

FIGURE 2

STUDY 2: CONTRASTING EXEMPLAR IMAGES ACROSS THE DIVERGENT FINDINGS

Divergent Finding	Illustrative Exemplars Provided by Minorities	Contrasting Exemplars Provided by Whites
Framing of the Choice Journey: Money-as-Liquid Metaphor		
Framing of Self: "Prince" or "Pauper"		
Framing of Self: Freedom or Slavery		
Outcomes of Systemic Restricted Choice: Being Alone		

important impact on the self in the face of systemic restrictions on their ability to choose. These respondents' experience with systemic restricted choice engenders a pleading and subservient self-view.

In contrast with the self-framing of minority consumers as paupers, the white majority describe an almost entitled, prince-like framing of the experience that demonstrates a sense of efficacy and autonomy conspicuously absent from the minority narratives (see fig. 2). White consumers described being in the "driver's seat," being the bank's "prize," or being the dangled "carrot" over which the banks would fight (emphasis added):

> I felt like I was financeable and I felt *like it wasn't like I was hoping and praying in the corner that I might get somebody to finance me. . . .* I felt like I was the customer, I felt like *I was under control. I was in the driver's seat.* I felt like I had entities that if they were interested in my business you

> know it's capitalism at its best, I mean it's competitiveness, it's exactly what I wanted to create, an environment of competition. *You know I'm your prize—I'm the carrot,* whether I'm a big carrot or a little carrot to you that will surface in how well you treat me in what you come up with. (White male)

> And I think you feel a little also successful you know that you've built your credit record and stuff like that to a point that *banks are interested in loaning to you.* (White male)

White consumers employed various metaphors consistent with this prince-like self-framing of their position in the process of seeking financing for their businesses (e.g., vineyard estate owner, Trump-like real estate mogul). In contrast, the minority consumers framed themselves in a supplicating and vulnerable position of "begging" for resources from the power of the banks, evidencing a lack of self-autonomy in the process. Again, this position reveals the bottom-up orientation that minority consumers often used to frame and express their thoughts and feelings. This theme existed independent of success. Specifically, we found that even when minorities were successful in their quest for financing, they still viewed themselves in this pauper-like frame. One Hispanic consumer, after years of "struggles" and "hustle," ultimately succeeded in his choice journey for financing but only after begging immediate family for financial help.

> Those were the struggles, but, you know, we always manage. We always hustle. We went over here, *we begged here,* we asked this, *we asked my mother, you know, give us some money, carry me for 30 days.* (Emphasis added)

Facing dire circumstances in their choice journey, minorities who were ultimately successful relied on a rudimentary social network consisting of immediate family relationships. Relying on this form of social capital, however, came at the cost of negative feelings of shame, frustration, and embarrassment as they pleaded for help from close family members:

> It was *frustrating* because I didn't want to get somebody else involved, and we were lucky that my brother-in-law said yes [to be a cosigner of the loan] because he had the option to say no. But I felt like you see this person right over here. They were checking every single . . . *it's like you are a virus. They have to watch for it.* (Hispanic female, emphasis added)

Consistent with their prince-like self-views, the white respondents described having at their disposal a larger and more sophisticated account of social capital to draw on along their financing journey. They described having relationships with real estate agents, civic leaders, and professional contacts who introduced them to bankers. Compared with the minority respondents, the white respondents alluded to a much deeper network of relationships resulting from previous employment, family status, education, and community involvement, which led to having, as one white respondent noted, "a plethora of places" to find financing.

Minority consumers encountering systemic restricted choice also employed self-frames that expressed feelings of imprisonment or slavery (see fig. 2). This framing again presents a compromised sense of individual self-autonomy and a lack of individual control in the choice journey. Voicing their experiences in what they perceived as fettered relationships, minority consumers widely referenced being bound by chains and shackles, being handcuffed, feeling "strapped down," and being "played like a puppet" (emphasis added):

> *I feel a slave* because when you go to a bank, right? I have to bring you an application to a bank, so you give them your application, and then you have a nice letter over the mail saying, yeah, I'm sorry, we decide unfortunately on this occasion we can't help you because your revolving credit is too high, because your credit cards are maxed out. . . . But you are bringing your main resources, your personal resources, and then they tell you, no, I'm sorry, can't lend you the money because your credit is full. . . . *So that's when you feel like you are at the bottom of the line, trying to fight the system.* (Hispanic male)

> So you feel here, like, *you try to break those different chains,* those different obstacles during that process. And basically you are trying to push, to push, to break those chains. (Hispanic male)

Juxtaposing the fettered perspective of minorities with that of white consumers reveals a relatively unfettered feeling of freedom and autonomy. White respondents discussed a sense of autonomy in knowing that they could call on banks when needed and receive the desired outcome. They also described how their relationships with the bank gave them freedom (emphasis added):

> *Freedom comes from being able to know that you have that money to draw upon* if you have a month that's a down month. (White male)

> When you're able to get over that hurdle and get a loan, a small business loan, there's a feeling of *freedom and strength* that kind of goes along with that accomplishment so you can meet your cash flow. (White male)

White consumers employed self-frames that presented a sense of freedom and autonomy in the choice journey that was markedly absent from the minority narratives. In contrast, minorities described hitting roadblocks and restrictions along their choice journey that led them to adopt negative, even subservient, self-frames.

Outcomes of the Experience of Systemic Restriction. Against the backdrop of a turbulent and hazard-laden choice journey for financing, minorities experienced an overwhelmingly negative set of outcomes from their experience with systemic restriction. Before presenting these negative outcomes, we first must acknowledge the self-determination and resiliency of minorities as they faced systemic barriers. Visible in both their facial and body expressions and their verbal expressions, minorities detailed their determination and motivation to persist in pursuit of their dreams, which included the subgoal of securing financing. Minorities proclaimed that although taking a beating, they were "still alive" and that they would "keep fighting" (emphasis added):

> *I had made the determination that I'm in it to win it.* It's all or nothing. I've invested so much in this, both financially and more so just, you know, my relationships, my family. *I have to succeed. I have to succeed.* (Hispanic male)

> Sometimes it makes me upset, but maybe I know that. . . . *Maybe I just keep pushing. I have to keep pushing. I have to keep trying because that's what I believe.* That's my skill, and I believe that you have to be passionate about what you're trying to do, so *I just stick with it and try again and try another avenue, try a different approach.* (Black female)

Amid the travails and obstacles in their journey, the minorities' sense of self was reinforced positively as the commitment to their dreams and aspirations was renewed. However, this was not without cost. In combination with the impacts on their sense of self (i.e., framing the self as fettered, imprisoned, or a beggar or slave), these respondents also describe strong dysphoric emotional outcomes to their experience of systemic restricted choice in seeking financing. The minority informants each endured multiple rejections and roadblocks at different levels of the choice hierarchy. This experience of constantly "hitting your head against the wall" and finding no or limited success is a "downward spiral" that is at once frustrating and demoralizing. Of this process, one participant said:

> You know, we needed extra money when we started, we brought our own money to create the business, but we were facing different situations. We thought it was going to be easier than we thought. We went to different seminars with the SBA [Small Business Administration], we went to see micro lenders, we went to see major banks, we tried to establish a good relationship with the banker, we did the whole thing. And at some point, two years ago, we were looking for some kind of money, and we start knocking those different doors. We had been told we should do it, and to be honest, we didn't get any positive result. So following that situation you start feeling to yourself, well, maybe *I'm doing something wrong*. After the six, seven, or eight [rejections] you question yourself, *Did I do something wrong?* (Hispanic male)

This quote highlights several of the commonly referenced subgoals and subchoices minorities pursued in the choice journey, and despite their best efforts, they were continually restricted and rejected in their efforts. This experience leads to an unfortunate state of self-questioning. For example:

> I've gone to Citi, they always say no, Citibank. Commerce Bank, no. New York bank, no. Chase always says no. But Chase is the one bank that I love. One day I'll get it, God Bless, because my goal [is] to get credit with Chase. *Why Chase?* Because it is the major bank in the United States for me. It will open my door to another world—the world of financing—if I get the credit with Chase. They are the big bank. I have tried. [becomes deeply emotional] I don't know why they say always no. There is no reason. . . . I don't know why they say always no to [me]. (Hispanic female)

For this respondent, completing her choice journey with Chase would result in more than financing—it would also be a signal of personal success with a "major bank" that would establish her self-identity as a businessperson. That success is part of her American Dream. She continued, "This is my dream, this is my dream. I'm not going to change it back. . . . I hope one day I get it, I am hoping like this [assumes a prayer posture with her hands]."

Experiencing continued episodes of systemic restricted choice in their journey led many minority respondents to self-question their abilities and, in turn, to experience a diminished sense of self-worth and self-esteem. For example (emphasis added):

> Well, it's a spiral, right? It's a spiral because you're *ashamed* and my self-esteem and confidence are strong, and yet I'm being denied, so it makes me feel bad about myself, bad about my business. It's a spiral, right? I walk into Chase and they ask, "Have you applied for a loan?" Oh yeah, already got denied. They say, "Thank you very much." See what I'm saying? It leads to this feeling of *incompetence*; this feeling of being *insufficient*, of being unable to be functional. . . . [You're] made to feel like, *I'm just not competent or capable.* I feel very, very *insecure* and very, very, like I said, childlike almost. (Black male)

> *You don't feel good about yourself. You don't feel confident. You almost feel like a failure.* When you feel this way, it affects your relationships, both personal and professional. (Hispanic male)

Being Alone. Another particularly poignant contrast between minority and white consumers was in the images provided (see fig. 2) and the descriptions (or contradescriptions) of being alone. Minority consumers expressed more profound feelings of loneliness in managing their small business ventures than did white consumers. As one white female consumer noted:

> You're not alone and I think there's other people in the boat. . . . *You're certainly not alone, you can't do it alone. You have a great team behind you and they're in the boat with you.* They're all for it. But they're looking to you. (Emphasis added)

In contrast, a black male consumer noted:

> *I feel disconnected.* Again, I see myself and wonder what am I doing wrong? I feel like I am the only one who's going through this. I feel kind of withdrawn to myself and I'm questioning myself again. *I feel disconnected from the world.* (Emphasis added)

Dysphoria resulted from minority consumers' hopelessness that comes from constantly butting up against the structural and psychological barriers that systemically restrict their consumption choices to procure loans for their small enterprises. For example, these minority consumers compared their feelings in the wake of restricted financing choice to being "trapped alive" under earthquake rubble, stuck alone in a box, lost at sea, and in a hospital bed with a broken skull. One consumer described this feeling as drowning and sinking in a body of water while financial institutions were slowing pulling the life preserver away. Other consumers described their feelings as rejected, denied, and ashamed. One Hispanic male consumer said:

> I know friends of mine who have lost their business because of lack of funding and *they've committed suicide. There are times I even, myself as a business owner, I've thought, "Should I just end my life?"* (Emphasis added)

The sense of being alone, isolated, disconnected, and helpless is a powerful dysphoric outcome of systemic restricted choice for these minority consumers. Financing becomes an uphill battle fought alone against powerful enemies and without much hope for success. These minority consumers poignantly described the process of seeking loans as an alienating and individuating experience that signals a threat to personal goals and to their self-identity.

Race Salience and Felt Discrimination. A striking element of the minority narratives is how often in the choice journey race is a salient factor. Previously, we showed that identifying a lender who is "minority friendly" is an important attribute on which minority respondents rely in the choice journey. Race even plays a role for these respondents in deciding what clothing to wear and who they take with them when visiting a lender. Every minority respondent mentioned race and its role in his or her experience with seeking financing for his or her small business. Conspicuously absent from the white informants' narratives is any mention of race or its salience or relevance to their choice journeys. For example (emphasis added):

> I'm having some *minority issue here being black.* And not just black, African. I've been knocking on the door, but I find it difficult to break through. (Black male)

> When I meet white, black, Hispanic, I am a very loving person, so I see no reason why people shouldn't be nice to me in terms of trying to grow my business. And they're going to maybe *use the color of your skin to create a barrier*, and that is something that I think is not really fair in our society, especially today. (Black male)

> When you're a minority guy and you're a small contractor, you can't get it. They won't even look at you as a quote, unquote, minority. . . . *That's the stigma that you get when you're a minority.* (Hispanic male)

The frequent references to race in the data are not unfounded; the results of study 1 demonstrate that differential treatment of minorities occurs during an early, information-seeking stage of the choice journey. Some minorities considered their experience with systemic restrictions a personal challenge. As one Hispanic male respondent noted,

> So having confidence and having the ability to go there and really say what you meant and do what you said, that's the difference between success and not success. That is the difference between people looking at you as a minority and as a nonminority, although you are a minority. Right now when you mention my name, they don't say [his name], minority anymore. They say I'm one of the best suppliers in the city. That's the difference.

Another outcome of the experience of systemic restricted choice is felt discrimination. Minority consumers described structural marketplace barriers that prevented them from accessing financial resources (for illustrative examples of images informants provided, see fig. 3).

While the narratives of minority consumers were replete with perceptions and experiences of racial discrimination, white consumers never mentioned race in any way or referenced felt discrimination at all. For white respondents, race was not a salient factor in their choice journey, nor did any white respondents describe race as a relevant facet of their self-identity. For minority consumers, their race was always a salient factor. One black male consumer provided a sketch of two people standing behind a metal-and-glass barrier watching a large group of people waiting to enter a building (see fig. 3). When asked to describe how the picture reflected his experiences with seeking financing for his business, he described the following metaphor and image:

> Funding is being provided to other types of companies . . . bank loans, lines of credit, those credit cards, those kind of things. I sort of look at it to a large degree as, *here I am over here doing the same thing and doing better things, but I've not been invited to the party and to participate. I'm sort of over here on the outside, looking in.* (Emphasis added)

Other consumers described their experiences and feelings of discrimination and social injustice (emphasis added):

> If you expanded [the frame of the picture] there were other pockets of people that were on the outside, then I would think that those other pockets of people are my race, disproportionately my race, *whereas every other race is sort of inside there having been invited to the party.* Yep, wishing they could *get into the party.* (Black male)

> I detest the fact that they [the banks] try to treat you like you're lower than other people. It's true we struggle, you know, because you come to a different country, you know, and I can't expect them to, you know, to treat me. . . . At the beginning, when I just first come over here, you know, I can understand. I don't know the language and I don't know the culture and I haven't assimilated, *but come on, I've been here 25 years, and I've done everything everybody else does without any help. You know, give me that much respect. Give me that credit. Don't treat me like I'm nothing.* (Hispanic female)

> Rejected and *discriminated.* . . . I'm entitled to [the loan], to be there [among the successful]. (Hispanic male)

Similarly, another black male consumer presented a pic-

FIGURE 3

STUDY 2: ILLUSTRATIVE EXEMPLAR IMAGES OF MINORITY INFORMANTS DEPICTING FELT DISCRIMINATION

ture of seats in a theater with the tagline "Get a front-row seat." Using this picture as a projective device to describe his thoughts and feelings, he spoke of the feelings of frustration he felt trying to gain a seat at the white majority corporate banking table:

> *I'm in the back, trying to get up to the front*. . . . I've actually sat down with all the bank managers at one point in time saying, *"Guys, I've worked for your banking corporation for over twenty years." I said, "If you check your records, I'm probably your longest term minority certified businesses that's shot* [*i.e., photographed*] *for you, who's done work with your corporation. And I can't get any kind of consideration for anything."* I said, "I can't even get a secured credit card from you guys." I said, "If you can't help me develop some kind of financial relationship with you other than you just taking my money and clearing it, what's going on?" (Emphasis added)

Because of their racial minority status, other consumers described the challenge of getting past the gatekeeper of financial resources. One black male consumer showed a picture of a white state trooper stopping cars on the highway to describe his thoughts and feelings about seeking loans for his entrepreneurial venture:

> So he's letting all these cars pass, and he stops these two. And *that's how I feel about sometimes getting financing because I see some people getting loans, and the gatekeeper lets certain people get loans, and they stop others from getting loans*. (Emphasis added)

Other consumers described facing stereotypes when seeking financing (emphasis added):

> I guess maybe *in the back of your mind*, you've heard things or were told that maybe you were immediately *going to be discounted because of your race* or because [of] the *stereotype* where, we don't have good credit, we can't be credit worthy. So in the back of your mind, it's pretty much you're expecting, you know, kind of one thing, or for him [the lender] to be thinking one thing. (Black female)

> I came here fifteen years ago and he, *the person born here knows how to maneuver things, and they can go and then tackle the issue with laws and all this stuff. But some of us, you know, they tell you anything. You try to pursue it, hey, they will not give it to you. They will not give it to you. You move on. You can't fight. You can't do anything. . . . You feel less of a human being.* You say, We are all human beings. We all go to bathroom together, we all drink. How come? What is wrong with me? You look at yourself and say, what is wrong with me? God . . . sometimes you have to, if you're a believer, you have to still question God. (Black male)

These respondents describe the feeling of having been discriminated against as an additional outcome of the experience of systemic restricted choice, which directly affects their sense of self to the point at which "you feel less of a human being." Victims of consumer discrimination bear a psychological burden as a result of overt and subconscious discrimination. Because consumer discrimination occurs in everyday situations, it constitutes the kind of "microaggressions" that can have cumulative debilitating effects over the course of a person's lifetime (Sue et al. 2007). Specifically, victims experience erosion in their self-confidence and self-esteem, as well as physical consequences such as stress-related illnesses (Harris 2003). The narratives of these minority consumers describe these outcomes and impacts on their self-concept. Further, these experiences made racial ethnicity a salient factor in their choice journey and (unlike their white counterparts) an important facet of their self-identity.

STUDY 3: ONLINE SIMULATION EXPERIMENT

We conducted an online simulation experiment to complete the third leg of the methodological triangulation of our inquiry into the impact of systemic restricted choice on the construction of self for minority consumers. A limitation of the previous two studies was their inability to directly assess the impact of rejection on self-esteem and self-autonomy. This study aims to address this limitation. Specifically, we investigate whether priming people on their race influences their self-esteem and self-autonomy after an episode of marketplace rejection.

Prior research suggests that the perception of being a victim of discrimination has important implications for self-esteem (Crocker, Cornwell, and Major 1993; Major et al. 2007). Self-esteem, or a person's global orientation toward the self, is perhaps the most critical factor underlying a person's psychological well-being (Brown and Mankowski 1993; Gergen 1971). This research argues that self-esteem differences are most pronounced when people encounter negative outcomes or experiences. There are two contradictory viewpoints on how rejection may affect self-esteem. First, self-esteem decreases because targets cannot help but internalize their social devaluation (Major et al. 2007). Second, self-esteem does not decrease because targets protect it by attributing the prejudice of others instead to internal stable characteristics of themselves or their social group (Crocker and Major 1989).

Also, self-determination theory argues that autonomy is reduced when a person's choices are constrained or restricted by external forces beyond his or her control, which limits or compels behavior that may threaten personal well-being (Martin and Hill 2012; Moller et al. 2006; Zuckerman et al. 1978). Moller et al. (2006) argue that pseudochoice, or convincing people that they have a choice when they really do not, threatens psychological well-being. Building on this theory, we investigate the effect of systemic restricted choice on individual autonomy and self-esteem.

This work also builds on that of Markus and Kitayama (1991), who argue that cultural models help explain self-definitional projects and suggest that self-esteem and autonomy may not only be protected but also be enhanced as people encounter negative outcomes or experiences. Their research shows that European Americans (largely white or Caucasian majority participants) exhibit greater *self-enhancement*, or sensitivity to positive self-relevant information, than people from other cultures. They also argue that this effect may be reversed for people from more collectivist cultures, such that they are more sensitive to negative self-relevant information and engage in more *self-criticism* (see also Kitayama et al. 1997). In study 2, we found preliminary support for these assertions; white respondents who were able to complete their journey with bank "partners" to secure financing described entitled and elevated prince-like self-views, in which they expressed high autonomous motivation. Conversely, we found that among minorities, a pauper-like view of the self emanated from the experience of systemic restricted choice, in which their individual control was constrained and they exhibited heteronomous actions that threatened their physical and psychological well-being. In study 3, we investigate the self-criticism effect of self-esteem and self-autonomy for minority consumers depending on whether race is primed after an episode of marketplace rejection and compare these against a control group.

We extend prior research on self-criticism and propose that when primed on their race, minorities (blacks and Hispanics) will report lower self-esteem and lower self-autonomy than when they are not primed on their race. This pattern should be consistent with the self-criticism effect (Kitayama et al. 1997). Thus:

> **H1**: After an episode of marketplace rejection, minority consumers (blacks and Hispanics) will exhibit (*a*) lower self-esteem and (*b*) lower self-au-

> tonomy when they are primed on their race than when they are not primed on their race.

Method

We recruited 120 participants from an online consumer panel and asked them to test a new online service designed for consumers to apply for low-interest educational loans. Among these participants, 60 self-identified themselves as white or Caucasian, and 60 declared themselves as either Hispanic or black. The average age of participants was 33 years, and 58% were women.

Participants were first presented with an introduction to "Liberty Education," a low-interest lender of educational loans:

> It's no secret. Increasingly, the good jobs are going to people with the right education. A college degree or specialized job training could be the best thing you'll do for yourself. We at Liberty Education want to help you receive the right education.
>
> Some people have the idea that they cannot afford advanced job training or a college degree. You may even be one of them. The truth is, education is expensive. For that reason, we have partnered with hundreds of financial institutions to provide you with the lowest interest rates on student loans to help you realize your dream job. Our education loans are designed specifically for you.
>
> Like anything else where there is a high demand for the very best, our financial aid is offered on a competitive application basis only. While other financial institutions continue to use your income and credit score to determine your eligibility, at Liberty Education we have developed a proprietary tool to determine your eligibility that is based on your personality and other demographic information about who you are as a person. Unlike other application processes, our process is proven to be much more accurate in determining your loan eligibility and your future success in landing your dream job.

Participants were then presented with instructions to choose up to three different loan program choices. These loan programs were based on programs currently being offered by private lenders. The options were (1) "flexible repayment (pay what you can while you are in school or pay later after school)," (2) "fixed rate (fixed interest 5.75% APR, interest-only payments while you are in school)," and (3) "variable rate (variable interest 3.17%–9.37% APR, interest-only payments while you are in school)." After choosing one, two, or three of these options, participants were invited to fill out an online application to determine loan eligibility and qualification. All participants were then directed to an application form on which they provided information on their age, gender, previous education, and household income. All participants also answered questions about their personality. The questions were presented as a new approach of evaluating loan prospects to determine their loan eligibility and future employment success. Participants were then randomly assigned to one of two treatments for the race prime (received the race prime, did not receive the race prime). Fifty-eight participants (31 white, 27 minorities) received the race prime. The remaining 62 participants (29 white, 33 minorities) were not asked about their race, which served as a control condition. The race prime treatment consisted of asking participants to respond to additional demographic questions, including their nationality and their race. After completing these questions, participants clicked on the application submit button, and their application was processed by an "automated underwriter." While waiting for their loan to be underwritten, participants were asked to complete a brief postapplication questionnaire on which they rated their satisfaction with the loan qualification compared with that of other financial aid services. Participants in the control condition proceeded directly to the satisfaction questionnaire. After completing the questionnaire, all participants received the same automated response that told them that they were not eligible for the low-interest educational loan they had previously chosen.

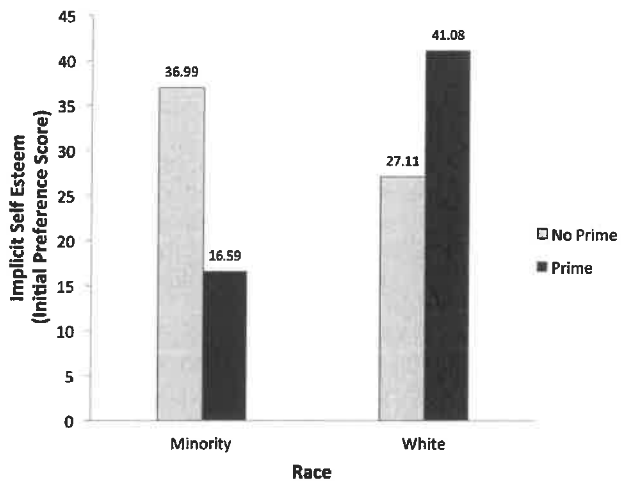
After receiving this rejection, all participants were then asked to provide feedback to the provider on the process and results of the loan qualification application. Participants were then notified they had completed the study and were redirected to another study for which they were asked to complete a survey about consumer attitudes and emotions. Participants were then presented a variety of scales, including a three-item self-autonomy scale (Thomson 2006). This scale measures the degree to which a person feels that his or her activities are self-chosen and is free to be whatever he or she wishes to be (i.e., "I feel that my choices are based on my true interests and values," "I feel free to do things my own way," and "I feel that my choices express my 'true' self"; $\alpha = .76$).

We measured self-esteem using the initials-preference task (Bosson, Swann, and Pennebaker 2000; Greenwald and Banaji 1995; Kitayama and Karasawa 1997). Originating with the name letter effect discovered by Nuttin (1985), this measure is an implicit measure of self-esteem that is less prone to socially desirable responses. That is, this task taps into the self-attachment of personal names to measure a less biased sense of self because the effect can be obtained without the conscious knowledge of the purpose of evaluating letters. We administered the initials-preference task after the procedure (Bosson et al. 2000) outline. Participants evaluated each of the 26 letters of the alphabet using a 0–100 slider scale (I dislike this letter very much/I like this letter very much). We randomly presented the ordering of the letters to control for order effects. After evaluating each of the letters, participants provided their first and last initials. To calculate initials-preference scores, we subtracted the average of the overall rating of the sample for the participant's first and last initials from his or her own rating of his or her initials. We summed the first and last initial scores to create each participant's initials-preference score.

Finally, at the end of the survey, all participants answered demographic questions, including questions about their race.

FIGURE 4

STUDY 3: EFFECT OF RACE PRIME AND RACIAL GROUP ON IMPLICIT SELF-ESTEEM



We categorized those that reported being white/Caucasian as white consumers and those who reported being African American or Hispanic as minority consumers. Last, we debriefed the participants on the purpose of the study and told them that the decision to deny their application was not based on any information they provided, including their race or ethnicity.

Results

We conducted a 2 (race prime: received race prime/did not receive race prime) × 2 (racial group: majority/minority) ANOVA for implicit self-esteem. Neither the main effects for race prime ($F(1, 120) = .20, p = .66$) nor those for racial group ($F(1, 120) = 1.03, p = .31$) were significant. However, consistent with our predictions, we found a significant interaction between race prime and racial group ($F(1, 120) = 5.68, p < .05$). We conducted a priori pairwise comparisons to understand the nature of the interaction (see fig. 4). The results indicate that whites and minorities in the control condition did not differ in their implicit self-esteem when no race prime was received ($p = .33$). This result suggests that there was no systemic difference between minorities and whites. In contrast, in the race prime condition, minorities reported significantly lower implicit self-esteem ($M = 16.59$) than whites ($M = 41.08; p < .05$). Consistent with the self-criticism effect, the results for minorities reveal that those who received the race prime exhibited a greater decrease in implicit self-esteem ($M = 16.59$) than those who did not ($M = 36.99; p < .05$), providing support for hypothesis 1a. The effect on implicit self-esteem was not significant for the control group of white consumers (no prime = 27.11, prime = 41.08; $p = .17$).

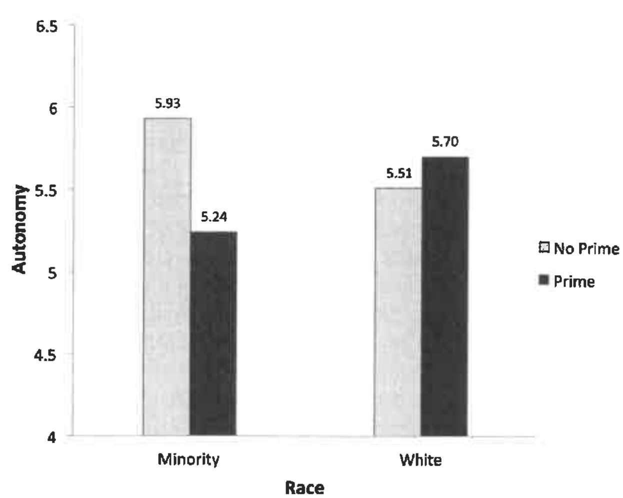
Next, we conducted a 2 (race prime: received race prime/did not receive race prime) × 2 (racial group: majority/minority) ANOVA for self-autonomy. Consistent with implicit self-esteem, the main effects for race prime ($F(1, 120) = 2.17, p = .14$) and for racial group ($F(1, 120) = .01, p = .91$) were not significant; however, the two-way interaction was significant ($F(1, 120) = 6.81, p < .01$). Pairwise comparisons reveal a significant self-criticism effect affecting autonomy for minorities (no prime = 5.93, prime = 5.24; $p < .01$), providing support for hypothesis 1b (see fig. 5). The effect on self-autonomy was not significant for the control group of white consumers (no prime = 5.51, prime = 5.70; $p = .42$).

Discussion

The results of an online simulation experiment reveal that priming minority consumers on their race causes differences in self-esteem and self-autonomy after an explicit episode of marketplace rejection. Consistent with Markus and Kitayama (1991), our results provide further support for the argument that consumer culture and the self influence whether minority consumers are more prone to engage in self-criticism. Specifically, we found evidence that simply asking minorities about their race and then rejecting them leads to greater decreases in implicit self-esteem and autonomous motivation than when a race prime is not given, consistent with the self-criticism effect. White consumers did not significantly differ in their implicit self-esteem and self-autonomy when their race was primed versus not primed. These results suggest that minority and white consumers differ in how they construct the self when they are primed on their racial background and are later rejected. In light of the findings of study 2, which show that in the

FIGURE 5

STUDY 3: EFFECT OF RACE PRIME AND RACIAL GROUP ON AUTONOMY



financial services marketplace race is often if not always salient for minority consumers, the results from this experimental study showing negative impacts to self-esteem and self-autonomy are likely to be all too often present in the lived experience of minority consumers as they seek to choose financial products.

GENERAL DISCUSSION

In a society in which freedom and autonomy in choosing and controlling one's life is the dominant discourse, how is the multifaceted self-concept constructed when systemic restrictions are encountered in consumer choice? Employing a triangulated, multimethod approach, we shed light on this question.

Across three studies, we demonstrate that systemic restricted choice affects how minorities construct the self and how they perceive the consumer choice journey to accomplish personal goals (e.g., the American Dream) and reify personal values (e.g., freedom, independence). In an involved consumer choice situation, the process consumers went through to make a choice can be usefully described as a choice journey. Such involved decision making required not only a series of subgoals but also subchoices. Many of these subchoices would become their own involved choice journey that would again be pursued with the requisite subgoals and subchoices for years—all in pursuit of a key superordinate goal to choose financing for a small business. Thus in these data, the lived experience of an involved consumer choice is theoretically both richer and more expansive than the discrete moments of consumer choice that are typically conceptualized and described.

The experience of systemic restrictions on consumer choice at different stages of the choice journey (as described in study 2) and at different levels in the choice hierarchy (as demonstrated in study 1) problematize the common understanding of consumer choice in these contexts. Consideration set formation is a key component of consumer decision making (Roberts and Lattin 1991). And yet, under systemic restricted choice, the ability of a consumer to form a robust consideration set or potentially any consideration set is compromised. In the extreme condition of systemic restricted choice, even a remarkably motivated and determined consumer could end up with an empty set for his or her consideration set—all due to exogenous restrictions outside of her control.

Thus this work marks an important first step in understanding the phenomenology and associated cultural structure of consumer experiences of systemic restricted choice. Theories of choice and especially involved consumer decision making need to include the realities of systemic restrictions on consumer choice and its impact on consideration set formation and the ability of consumers to enact desired marketplace exchanges.

This research finds that while both white and minority consumers relinquish control to marketing agents when seeking financial service products, minority consumers encounter systemic restricted choice in their search to consume financial service products. The triangulated data show that these racial microaggressions have a cumulative debilitating effect on the psychological and physical well-being of minority consumers (Sue et al. 2007). Juxtaposed against the journey of white consumers, the choice journey for minority consumers is more of an arduous uphill battle, in which they describe negative impacts on the self, framing themselves in subordinate and even subservient terms. As a result of these self-diminishing perceptions, minority respondents describe a series of positive and negative outcomes to the sense of self in the wake of their experience with systemic restricted choice, including increased goal commitment, diminished self-esteem, and reduced self-autonomy. Racial and ethnic minorities also describe the experience of felt discrimination, in which they attribute their systemic restrictions to their race/ethnicity.

As choice is identity defining and expressive (Markus and Schwartz 2010; Townsend and Sood 2012; Ward and Broniarczyk 2011), systemic restricted choice is identity repressive and forces self-redefinition. In a culture in which the supernarrative is one of freedom, freedom fundamentally means the right and ability to choose, and enacting choice is a signal of being free (Markus and Schwartz 2010). Because of this, systemic restricted choice is a sign of subordination and servitude. Just as the ability to choose is a self-feedback system that informs and shapes identity, the systemic inability to choose also sends signals in a feedback process that reshapes the construction of self in ways that diminish self and evoke a series of negative affective experiences (Carver and Scheier 1998).

The inability to choose not only forced minorities to reframe themselves in subordinate ways but also blocked their ability to express and reify deeply felt and closely held values, such as freedom, self-autonomy, and self-direction. Continually experiencing exogenous restrictions on their ability to choose caused the respondents to frame the marketplace (and its resources) as restricted and circumscribed, to frame themselves (relevant to that marketplace) in a subservient position, to orient themselves at the bottom looking up, and to view themselves as shackled, pinned down, and even enslaved.

Given that modern racism and discrimination is rarely overt, the victim of discrimination is left in a quandary. If it were explicit, it would be easier for consumers to attribute denial to something external to the self and thus protect, to some extent, their self-concept. But since modern, microaggressive, discriminatory restriction is most often latent and ambiguous, for the consumer there is always the lingering question: "Am I being denied because I am unworthy, or because of my race/ethnicity?" Since there is no way to expressly answer this question for certain, minorities are forced to interpret denial through a lens their white counterparts simply do not encounter.

As noted, systemic restricted choice occurs when consumers encounter marketplace barriers and obstacles, exogenous to themselves, that restrict their ability to make choices and enact market exchanges. One facet of systemic restricted choice is that the locus of choice moves from the consumer to the producer/provider. In most consumer contexts, consumers can choose to purchase what and where they want, relative to endogenous barriers such as ability to pay, mental accounting, personal budgeting, personal predilections, and so on. In contrast, in systemic restricted choice contexts, the locus of choice swings to providers, endowing them with much greater volition in choosing customers. Among the marketplace exchanges in which this shift of choice control occurs are financial services (e.g., loans, mortgages, leases), insurance (e.g., health, accidental, life), legal protection (e.g., litigation service), health care (e.g., counseling, experimental medicine), private clubs (e.g., professional and civic fraternities such as the Rotary Club), and educational services (e.g., higher education, career training). This relocation of choice in the consumer-provider dyad allows systemic restrictions to influence consumer choice journeys. This offers disconfirming evidence against and indeed problematizes the general assumption in the United States that choice is equally distributed, democratized, and available to all (Markus and Schwartz 2010). Awareness of this reality, as we demonstrate herein, is a necessary first step toward remediation.

This work further contributes to a growing body of TCR work centered on vulnerable consumer groups. Although previous work on vulnerable consumers has identified the factors that contribute to marketplace vulnerability (Baker et al. 2005), we identify a critical nexus between consumer behavior and entrepreneurship in which, because of both a necessity to survive and a desire to reify consumption dreams and visions, minority consumers pursue their own business ventures. With a "consumer acting as entrepreneur," we found that the experience of systemic restricted choice in financing is part of a much larger consumer choice. Consumers who experience systemic restricted choice at early stages of their choice journey are limited in their ability to make later choices to affirm personal goals and values. The inability to obtain complete and accurate information during early search stages hinders the success of obtaining loans for a business venture. Collectively, these systemically restricted choices make it difficult, if not impossible, for an entrepreneur to grow his or her business and to realize the American Dream. This in turn engenders negative impacts on the self-concept and the dysphoric outcomes described herein. Although the intensity of these dysphoric self-outcomes may or may not generalize in every context of systemic restricted consumer choice, it is likely that restricted choice leads to a variety of negatively valenced outcomes that directly affect consumer well-being.

FUTURE RESEARCH

Williams and Henderson (2011) argue that in today's marketplace, discrimination remains a vexing problem, not only in the domain of race and ethnicity, which has received the majority of attention, but also in many other domains, such as age, gender, religion, physical appearance, nationality, language, skin tone, weight/obesity, and perceived ability to pay. Indeed, they note that discrimination and injustice in the marketplace comes in many varieties, sizes, shapes, and colors. In our data, we noted a possible "double jeopardy" across gender and national origin (i.e., female immigrant vs. female natural born citizen). Prior research has also shown that women face more restricted choice in financial services than their male counterparts, particularly when they are also a racial minority (Menzies, Brenner, and Filion 2003). Therefore, further research should explore this double jeopardy across gender and race in this and other systemic restricted choice environments (e.g., health care, education) and the possibility that this double jeopardy exacerbates the negative impacts to the self-concept detailed herein.

Also, future work should consider the vulnerability of immigrants in a systemic restricted choice context. Although not the primary focus of this study, interview data reveal that, particularly among immigrants, the journey to acquire financing includes additional obstacles. For example, immigrants may need to address legal status questions, learn a new language, acquire financial literacy, and develop new social networks. Future work should explicitly investigate the impact of systemic restricted choice on the self-concept of immigrants.

In addition, while a deeper examination was beyond the scope of this current study, we found some preliminary evidence that systemic restricted choice due to race may not in every instance be equally distributed across racial/ethnic groups. Future research should go further than was possible in this study to investigate differences between racial groups (e.g., between Hispanic and black Americans) and the likelihood and potentially differing impact of experiencing systemic restricted choice on the self between minority racial ethnic groups.

While entrepreneurial consumers are heavy users of financial service products, most, if not all, consumers rely on financial service products (e.g., credit cards, automobile loans, educational loans), and as study 3 results indicate, being rejected from securing an educational loan may result in reduced self-esteem and autonomy for minority consumers when their minority status is made salient as part of the application process. Further research should consider how asking questions about race and ethnicity in applications for services affects the construction of self among minority consumers.

This work represents an important step in understanding how the self is affected as a result of systemic restricted choice. As an initial investigation, we hope this article can build awareness for the real experience of systemic restricted choice among consumers. In the tradition and spirit of transformative consumer research (Mick et al. 2011), we call on other like-minded researchers to investigate the boundaries and effects of systemic restricted choice on consumers—especially those in vulnerable populations. Collectively, we hope to be a voice in a much larger narrative highlighting these realities in order to affect change and catalyze a transformation that will attenuate or even eliminate systemic aspects of restricted choice.

DATA COLLECTION INFORMATION

The third author supervised the collection of data for the first study in summer 2010 using a professional market research firm. The first and second authors analyzed these data. All authors participated in collecting the interview data for study 2 in spring and summer 2008. These data were discussed and analyzed by all the authors and research assistants at Brigham Young University using NVivo qualitative research software to manage the audio recordings, pictures, and transcriptions. The first author supervised the collection of data and analysis for the third study using an online research panel in spring 2013.

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Shaping Small Business Lending Policy Through Matched-Pair Mystery Shopping

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Abstract

With limited financial sophistication, entrepreneurial consumers approach the financial marketplace more like retail financial consumers than like business customers. However, an assumption of both legislators and regulators is that business borrowers are more financially savvy than consumer borrowers and thus do not require protections that are as broad reaching. This gap between marketplace policy protections and the lived reality of the vast majority of small business entrepreneurs sets the stage for entrepreneurial consumers to fall through the regulatory cracks, creating the potential for exploitation and abuse. This situation may be exacerbated for minority entrepreneurs, who belong to protected classes that generally are more vulnerable to exploitation in marketplaces, including the small business lending marketplace. This article details the current status of the policy gap relative to minority entrepreneurial consumers and presents a matched-pair mystery shopping study to demonstrate the critical need for reliable, primary data to inform regulatory agencies as they work to implement appropriate protections to ensure equal access to credit across the small business lending marketplace.

Keywords

Consumer Financial Protection Bureau, fair lending, mystery shopping, small business

Customers of entrepreneurial, small business financial products often lack sophisticated or even basic financial acumen (Bone, Christensen, and Williams 2014). Of the 29.6 million small businesses in the United States,[1] 80% are sole proprietorships with no employees at all (U.S. Small Business Administration [SBA], 2017). With their limited financial sophistication, these entrepreneurial consumers tend to approach the financial marketplace like retail financial consumers, not as business customers. However, legislators and regulators appear to believe business borrowers are more financially savvy than consumer borrowers, such that they do not require broad-reaching protections (Bone 2006; Wiersch and Weiss 2015). The resulting gap—between available policy protections and the needs of small business entrepreneurs—creates a risk that entrepreneurial consumers will fall through the regulatory cracks and suffer greater exposure to the possibility of exploitation and abuse. For minority entrepreneurs, who belong to protected classes that are generally more vulnerable to exploitation, the situation even may be exacerbated (Bone, Christensen, and Williams 2014).

We describe the current state of this policy gap, relative to minority entrepreneurial consumers, and present the "spaghetti soup" of oversights in place in the current regulatory environment (Mills and McCarthy 2016). With this review, we establish the critical need for reliable, primary data to inform regulatory agencies that work to implement appropriate protections and ensure equal access to credit in small business lending marketplaces. To this end, we present a case study, detailing a viable methodology for gaining

[1] A small business is defined as an independent business with fewer than 500 employees (U.S. Small Business Administration 2017).

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insights into small business entrepreneurs and their experiences in the financial marketplace, namely, matched-pair mystery shopper testing.

Current State

Regulatory Environment

On May 10, 2017, the Consumer Financial Protection Bureau (CFPB) released a white paper and request for information (RFI) that was due on September 14, regarding the Small Business Lending Market (CFPB 2017a). With this RFI, the CFPB aims to gain a better understanding of the small business market and the opportunities available to minority- and women-owned small businesses. The Bureau also seeks more data regarding the products offered to these businesses and the true costs of collecting and reporting such data (CFPB 2017a). This RFI represents the first concrete step the CFPB has undertaken to exert its authority to implement Section 1071 of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank, Pub. L. 111-203, H.R. 4173), which requires financial intuitions that engage in small business lending to report their lending activities with the same transparency already required of the home mortgage lending sector. The CFPB has been tasked with both rule-making authority and the authority to collect these data.

Since 1975, the federal government has been collecting data from financial institutions that issue home mortgages in the United States under the Home Mortgage Disclosure Act (HMDA; 80 Fed. Reg. 66127). Under HMDA, financial institutions are required to report their mortgage data, including the race, gender, marital status, national origin, and credit score of applicants and borrowers (80 Fed. Reg. 66127). The federal government analyzes these data to "determin[e] whether financial institutions are serving the housing needs of their communities; and in identifying possible discriminatory lending patterns" (Federal Financial Institutions Examination Council 2016).

However, home mortgage reporting requirements do not extend to small business loans. Currently, the publicly available data for small business lending have been limited to information about loans backed by the U.S. SBA; its annual report, *Small Business Lending in the United States*, gives a small peek into general small business lending practices. The Community Reinvestment Act (CRA) data also offer some insight, based on the aggregate dollar volume of loans to businesses with revenues of less than $1 million, which are only required of institutions with assets of more than $1.2 billion. In addition, very limited data describe the experience that potential applicants have during the pre-application phase or the role that discrimination might play in determining entrepreneurs' decision to apply for credit (Bone, Christensen, and Williams 2014).

Small Business Economy

Small businesses are an integral component of the U.S. economy. In 2013, 99.9% of all U.S. firms were small businesses (SBA 2016), and they have provided 55% of all jobs in the United States since the 1970s (SBA 2017). Between 1993 and 2011, small businesses accounted for 63% of net new jobs (SBA 2016). In addition, they generated 46% of the private nonfarm gross domestic product in 2008 (Kobe 2012). In 2012, 29.3% of small businesses were minority owned (SBA 2016). Not only do these minority-owned businesses provide jobs, but they also strengthen and support communities. In the early 2000s, minority-owned businesses employed more than 4.7 million people (Silver 2014). In the past two decades, minority-owned businesses have outpaced their counterparts in both growth and gross receipts (Minority Business Development Agency 2010; Silver 2014).

Access to credit is necessary for any business to succeed. For small businesses, the inability to access credit can be particularly detrimental because it restricts their expansion. The Federal Reserve Bank's *2016 Small Business Credit Survey* highlights that 64% of small businesses that apply for credit do so to expand their business opportunities, and 55% of these applicants seek financing of $100,000 or less (Federal Reserve Banks 2017).

Both academic and private-sector research reveals that minority small business owners are denied credit from traditional banking services at higher rates than white small business owners (Asiedu, Freeman, and Nti-Addae 2012; Bates and Robb 2015). This denial produces far greater negative results, beyond the lack of credit availability itself, for specific businesses. The Federal Reserve Bank survey also revealed that 55% of small business owners surveyed did not even apply for credit, and the third leading reason for not applying was discouragement, which this study defined as "those [firms] that did not apply for financing because they believed they would be turned down" (Federal Reserve Banks 2017). Another Federal Reserve Bank study indicated that 22.2% of minority neighborhood businesses also were discouraged borrowers, compared with 14.8% of businesses from other urban localities (Wiersch, Lipman, and Barkley 2016). The greater probability of credit denials, combined with a higher likelihood of becoming discouraged borrowers, yields negative repercussions for minority communities. In particular, this disproportionate credit denial creates a perception among minority small business owners that there is no credit available to them from traditional sources; because they still need loans, they turn to alternative sources of financing (Wiersch, Lipman, and Barkley 2016). On the surface, alternative sources of credit may sound like viable solutions, but some borrowers inadvertently succumb to predatory lenders (CFPB 2016a; Weinberger 2017).

Thus, the actual denial of a business owner's application for credit is not the only stage of the process when credit might be denied. Denial of credit also occurs when applicants consciously choose not to submit an application, whether due to prior negative experiences and interactions with banks or their general impression that the application will be denied (Bates and Robb 2015; Bone, Christensen, and Williams 2014; Federal Reserve Banks 2017). In highlighting this negative disproportionate reality, the Kauffman Foundation reports that "58.5% of [African American] entrepreneurs who did not seek additional financing despite needing it [did so] because they thought the business would not be approved by a lender . . . [and] are almost three times more likely than whites to have profits negatively impacted by lack of access to capital" (Ewing Marion Kauffman Foundation 2016).

State of the Law and Regulation of Small Business

Congress enacted the Equal Credit Opportunity Act (ECOA) in 1974. In 2010, under Dodd-Frank, jurisdiction for ECOA largely transferred from the Board of Governors of the Federal Reserve System (The Federal Reserve Board 2008) to the newly created CFPB. As a result, Dodd-Frank effectively gave CFPB rule-making, supervisory, and enforcement powers regarding ECOA for most financial institutions.[2] It is one of a few laws that provide fair lending protections for consumers. The Fair Housing Act also deals in fair lending protections (42 U.S.C. § 3605), but its jurisdiction is limited to financial creditors that engage in residential real estate–related transactions, commonly referred to as mortgage products. In contrast, ECOA expands fair lending laws to all creditors; "it is not limited to consumer loans. [ECOA is] applied to any extension of credit, including extensions of credit to small business" (The Department of Housing and Urban Development [HUD] et al. 1994).

There are eight protected classes under ECOA: race or color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to contract), the applicant's receipt of income derived from any public assistance program, and the applicant's exercise, in good faith, of any right under the Consumer Credit Protection Act (59 Fed. Reg. 73, 1994). Under ECOA, a creditor is prohibited from discriminating against a member of a protected class at any time during the credit transaction, including activities in the pre-application phase (59 Fed. Reg. 73, 1994). Discriminatory actions include but are not limited to

- Failing to provide information or services or provide different information or services regarding any aspect of the lending process, including credit availability, application procedures, or lending standards.
- Discouraging or selectively encouraging applicants with respect to inquiries about or applications for credit;
- Refusing to extend credit or using different standards to determine whether to extend credit;
- Varying the terms of credit offered, including the amount, interest rate, duration, or type of loan; and
- Using different standards to evaluate collateral (59 Fed. Reg. 73, 1994).

It is the role of U.S. federal agencies to enact and enforce the laws that Congress passes. Within a single law, oversight and enforcement responsibilities may fall on a single agency or be shared among many different agencies. There are at least six different agencies that have regulatory authority over financial institutions that issue small business loans, in addition to individual state regulations and oversight (Mills and McCarthy 2016). This fragmented, sometimes overlapping approach can make effective oversight challenging, and it risks leaving gaps in important protections for small business entrepreneurs. Until the implementation of Section 1071 of the Dodd-Frank Act, most regulations in place to protect borrowers specifically relate to consumer loans, not small business loans (Mills and McCarthy 2016). As previously noted, an apparent assumption among both legislators and regulators is that business borrowers are more financially savvy than consumer borrowers and thus do not require broad-reaching protections (Bone 2006; Wiersch and Weiss 2015). However, unlike commercial borrowers that hire staff with financial expertise or have long-term banking relationships, many small business owners have limited exposure to traditional credit and banking procedures. The gaps in regulation and oversight, particularly in online lending spaces, thus have left the small business lending environment open to potential abuse. Implementing Section 1071 is the first step toward a better understanding of the small business lending marketplace and offering transparency regarding the types of products and terms into which small business borrowers enter.

Small Business Lending Data

The SBA produces an annual report titled *Small Business Lending in the United States* that examines "depository lending institutions and their lending patterns to small businesses" (SBA 2013, p. 1). However, the report is limited to data obtained from the only two publicly available sources of information on small business lending: Call Reports (data collected by the Federal Deposit Insurance Corporation) and CRA data (collected by Federal Financial Institutions Examination Council). These two data sources address the supply of loans, that is, loans actually provided by banks and savings and loans associations. They do not reflect demand, or loans applied for but never obtained, nor do they include other sources of

[2] The CFPB regulates ECOA compliance by banks, savings associations, and credit unions with assets of more than $10 billion. It shares enforcement authority with the Federal Trade Commission over mortgage brokers, mortgage originators, mortgage servicers, lenders offering private education loans, and payday lenders, regardless of size. The Comptroller of Currency has compliance authority for national banks, federal savings associations, and federal branches of foreign banks with total assets of less than $10 billion. The Federal Reserve Board retains compliance authority for financial institutions with total assets less than $10 billion that are members of the Federal Reserve System. The Federal Deposit Insurance Corporation has compliance authority over state banks with total assets less than $10 billion. The National Credit Union Association has compliance authority over federal credit unions (U.S. Department of Justice 2016).

marketplace credit such as suppliers, credit cards, families and friends, or finance companies (SBA 2013).

Beyond the SBA's annual report, other sources of small business data are extremely limited. Lenders are required to report data regarding the administration of SBA 7(a) Program loans (Office of the Comptroller of the Currency [OCC] 2014). However, in FY2015, only 2,163 lenders participated in the SBA 7(a) lending program, the lowest number of participants in eight years; most lenders originate fewer than ten SBA 7(a) loans per year (OCC 2014). Similar to the Call Reports and CRA data, these data only pertain to loans that are approved by the bank, not denied applications. With a request to the SBA, the public can obtain race and gender data about the SBA programs' small business borrowers, but these data are not regularly published (Silver 2014). The Community Development Financial Institutions Fund also provides loan data by request, but they only show the county where the funds are distributed and the purpose and use of those funds (Silver 2014). Several private and nonprofit entities, like the Ewing Marion Kauffman Foundation, Graziadio School of Business and Management, and the FIELD Program at the Aspen Institute, have attempted various forms of surveys across a multitude of small business owner populations, but each survey provides fragmented information, and they lack common variables that would enable comprehensive comparisons and conclusions (Silver 2014).

The CFPB, using the limited data available, estimates that the small business financing market is worth approximately \$1.4 trillion, and only 7% of loans are SBA Program loans (CFPB 2017b). Due to the lack of required reporting, more than \$1.3 trillion in financing issued by banks, nonbanks, online lenders, and other marketplace financers produces no publicly available data about terms, conditions, or demographics of the products and consumers. In turn, we lack data-driven understanding of the marketplace in which these loans were issued.

Data are required to combat institutional and systematic discrimination, though they cannot be effective in a vacuum. In this context, matched-pair mystery shopper testing is a valuable investigative tool for uncovering the systematic and institutional barriers that raw data and surveys alone cannot detect (Freiberg 2009). The U.S. Department of Justice, CFPB, and HUD all have used mystery testers to uncover institutional discrimination in consumer lending (CFPB 2016b; U.S. Department of Justice 2016). However, to date, none of these agencies has attempted to use mystery shopping to uncover the potential discrimination faced by minority small business entrepreneurial consumers. The implementation of HMDA led to increased targeting and efficiency of mystery shopping and an accordant increase in the enforcement of fair lending laws in retail consumer credit (Ahuja 2017). We propose that the proper implementation of Section 1071 may have a similar effect and could spur financial institutions to work harder on comprehensive, nondiscriminatory approaches to all types of lending, including to entrepreneurial small business consumers.

We present a case study to demonstrate how the matched-pair mystery shopping methodology can be used to investigate potential differences in lending to minority small business consumers. This case study illustrates the nuanced ways that minorities may be disproportionally denied credit or become discouraged borrowers; it also highlights the clear need to implement regulations like Section 1071 to resolve these disparities.

Small Business Lending Mystery Shopping Case Study

Method

We conducted fair lending tests using a matched-pair mystery shopping methodology to test for racial discrimination in small business lending. The purpose of this mystery shopping research, commonly known as "testing," was to determine the baseline customer experience level that minority and nonminority mystery shoppers receive when seeking information about small business loans. We investigated the potential for disparate treatment of small business customers during the pre-application (or loan inquiry) stage of the loan application process at a bank. Mystery shopping audit studies detect discrimination in a variety of service sectors (Finn 2007), including car shopping (Ayres and Siegelman 1995), renting an apartment, or purchasing a home (Galster 1991; Yinger 1998). Mystery shopping methods can capture factual evidence beyond potentially subjective perceptions of the experience (Ainscough and Motley 2000; Finn 2001). Precedent also exists for using mystery shopping in discrimination litigation in the United States, to assess employee and firm performance and determine whether consumers receive differential treatment in the "process" of requesting products/services (Lubin 2011). Financial institutions regularly conduct such testing in response to or to prevent fair lending violations (Lubin 2011). For example, banking institutions conduct mystery shopping tests to mitigate the risks and penalties that might result from routine regulatory and compliance audits of their fair lending practices.

Bank Sampling

We tested 17 bank locations in two large metropolitan statistical areas in the eastern United States. To select the markets, we first analyzed regional demographic compositions of each bank's location, according to U.S. 2010 Census Data tracts, categorized as low, moderate, middle, and upper levels of median family income, in line with CRA guidelines. We then used CRA data collected by the Federal Financial Institutions Examinations Council (2016) to determine the banks' lending patterns. These data include the number and dollar amount of loans originated in each census tract. We analyze interactions among branches with high, moderate, and low levels of loans to entrepreneurs in low to moderate income tracts. We conducted a total of 52 tests, involving 26 matched pairs of one African American tester and one Caucasian tester.

Study Design and Procedures

We recruited six African American and five Caucasian male testers in this test of the protected group of race under ECOA. African American testers were the protected group, and Caucasian testers served as the control group. Testers were trained extensively in a group setting about business and banking terminology and loan products. The testers knew the organization coordinating the data collection conducted matched-pair testing, but they did not have any information about the exact hypotheses the researchers were testing, nor were they informed whether they were the control or protected tester. The training also included the profile information that the testers were to present to the financial institutions they were assigned to test and what type of information they should seek; specifically, they were to ask about the financial institutions' interest rates, approval process, monthly payments, and fees. The training also familiarized the testers with a standardized form that they filled out after completing the mystery shopping. Having relatively few testers allowed us to gather a large number of tests by the same pairs, which enhances the consistency and reliability of our findings.

The testers were matched on the basis of critical personal characteristics (e.g., age, height, body build, attractiveness, education) (Ainscough and Motley 2000; Lubin 2011). All testers wore blue collared shirts and khaki trousers. Matching testers on these personal characteristics enabled us to compare the outcomes of the tests by race. In addition, the testers came to the banks with nearly identical business profiles and strong credit histories to inquire about a small business loan product ($60,000–$70,000 loan to expand their business and possibly hire a part-time employee). The profiles of the test and control groups were sufficiently strong that on paper, either profile would be likely to be approved for a loan. We slightly modified the distinguishing borrower characteristics, including the consumer's name, the company name, and reason for visiting this bank, to reduce the chance that testers might be detected as mystery shoppers. We designed the profiles for both the protected and control testers to be well above the threshold of what is acceptable for loan requests; however, the qualifications of the African American testers were superior to those of the Caucasian testers. In other words, on paper, the protected, African American testers were financially better off than the control Caucasian tester. Thus, the experience of African Americans seemingly should be more positive than the experience of the Caucasians. This conservative test helps identify the presence, if any, of disparate and discriminatory treatment in the test condition.

Each pair of testers was assigned the same retail location of the bank; one visited in the morning and the other in the afternoon. We alternated the times of the assignments across the race/test variables. Testers were trained to conduct each test and capture and record the information needed to complete an online questionnaire immediately after each visit, using iPads and an online survey instrument. After the test finished, the test coordinator followed up with each tester to review his testing experience.

On entering the bank, the tester stated that he was interested in meeting with someone about a loan for his small business. In most cases, the testers were directed to a bank loan officer from whom they gathered information on available loan and financial products. Consistent with the pre-application tests used by regulatory agencies and the courts (Lubin 2011), testers listened and gathered the information provided about the options, availability, and terms of the financial products discussed. Then a questionnaire measured three classes of the consumers' experience with bank officers, including the information provided, the information required for loan application, and the encouragement and assistance demonstrated to the consumer (Bone, Christensen, and Williams 2014). We selected the measures on the basis of their accepted and reliable status in both legal precedent and regulatory usage (Lubin 2011).

Results

We analyzed the data using chi-square difference tests of the proportions of reported values for African American and Caucasian testers. We thus compared differences in the information requested by the bank officer and the encouragement and assistance offered by the banker officer across pairs of testers. The results of the chi-square test, as summarized in Table 1, show that African American testers were asked to provide more information about their businesses and personal financials than Caucasian testers ($\chi^2 = 17.25$, d.f. $= 4$; $p < .01$). Specifically, compared with Caucasian testers, African American testers were more frequently requested to provide information from their business financial statements (73.1% vs. 50.0%), personal financial statements (65.4% vs. 46.2%), the amount of their accounts receivable (11.5% vs. 0%), and their personal W2 forms (30.8% vs. 0%). In addition, we identified a troublesome pattern by which loan officers inquired about their marital status. Asking about marital status as a determination of credit worthiness is a direct violation of fair lending law (Consumer Credit Protection 15 USCS § 1691). Yet African American testers were asked if they were married (M $=$ 23.1%) significantly more frequently than Caucasian testers (M $=$ 3.8%; $\chi^2 = 4.13$; $p = .042$). In addition, African American testers were asked about their spouses' employment status (M $=$ 11.5%) significantly more frequently than Caucasian testers (M $=$ 0%; $\chi^2 = 3.18$; $p = .074$). The similar test and control profiles should result in loan approvals based solely on the tester's income; there is no reason or need to incorporate a spouse's income into the credit worthiness decision-making process. Furthermore, only the African American testers were asked if their spouse was employed.

The results also reveal differences in the level of encouragement and assistance offered to the African American testers ($\chi^2 = 9.43$, d.f. $= 3$; $p < .05$). Compared with their Caucasian counterparts, African American testers were less frequently offered a future appointment (11.5% vs. 23.1%), offered help to complete the loan application (11.5% vs. 26.9%), asked how

Table 1. Match-Pair Test Results.

Factor	Survey Items	Control (Caucasian)	Protected (African American)	Chi-Square	Chi-Square (Pooled)	p-Value
Information requested by bank officer	Personal financial statements	46.2%	65.4%	1.95	17.25	.01
	Personal W2 forms	0.0%	30.8%	9.46		
	Business financial statements	50.0%	73.1%	2.93		
	Amount of accounts receivable	0.0%	11.5%	3.18		
Encouragement and assistance	Offered to schedule an appointment to take an application	23.1%	11.5%	2.36	9.43	.05
	Offered to help complete an application	26.9%	11.5%	1.98		
	Thanked you for coming in	96.2%	80.8%	3.01		
	Asked how they can help you	100.0%	92.3%	2.08		
Marital status	Your marital status	3.8%	23.1%	4.13	—	.04
	Whether your spouse/partner is employed	0.0%	11.5%	3.18	—	.07

Note. The percentages in the table indicate the rate of "yes" responses to each item.

they could be helped (92.3% vs. 100%), or thanked for coming in to the bank (80.8% vs. 96.2%).

To rule out the possibility of a repeated measures effect, such that the bank officer's treatment of the second tester might have been influenced by the first tester, we calculated the chi-square differences for only first bank visits. The results remain consistent with the analyses from the full data set; therefore, we focus on the complete results hereafter.

Unequal treatment. In addition to analyzing the data using empirical quantitative methods, we collected detailed descriptions of the events that occurred in each test. In these descriptions, the testers carefully described each of the actors (e.g., bank employees) involved, the detailed events during interaction, and the conversations that took place during their time in the bank. This open-ended questioning follows accepted and relied on methods in legal analysis that suggest testers simply state, "what they did, what they saw, and what they heard during the site visit" (Schochet 2009, p. 301). Following these guidelines, we asked for straightforward descriptions of the events as they occurred and did not ask for any personal inferences or interpretations from the testers. For each paired test, we conducted a side-by-side analysis and compared the experiences of the protected group (African Americans) with the control group (Caucasians). We analyzed these descriptions, again using procedures accepted and relied on in legal analysis (Schochet 2009). Comparing the descriptions from the African American testers with those from the Caucasian testers revealed that African American testers experienced unequal, substantively worse treatment than their Caucasian counterparts. We present three examples of the kinds of unequal treatment described by the African American testers, as summarized in Table 2.

Example 1: Banker checks to verify the business status and standing of African American testers. In two separate tests, conducted in two different banks, African American and Caucasian testers visited the assigned bank on the same day (one in the morning and the other in the afternoon). In both examples, the African American and Caucasian testers interacted with the same bank officer. The side-by-side comparison of the detailed narratives reveals a disparate level of scrutiny of the testers' business status and standing. In both tests, two different bank officers told the African American tester that they would need to check the state government website listing all registered businesses to verify if the African American tester's business was registered and in good standing. The matched Caucasian tester was not told the same thing in either test.

Example 2: African-American tester asked, "Why are you in the area?". In another matched pair, the testers again met with the same loan officer on the same day. Both testers were asked about the location of their business; the training scenario taught them to indicate that it was about an hour away from the bank. In this case, the African American tester then received questions about why he was in area. He responded as directed, saying that he was in the area to meet with a potential client. The Caucasian tester was not asked this question.

> "She asked location, I said [Area X]. She asked why I was in the area, I said had a potential client meeting. She asked who the potential client was, I said [a government agency] but couldn't disclose more than that."

Example 3: Visit a closer bank (African American) versus business specialist is not in today (Caucasian). Analyzing the descriptions of matched-pair tests of the same bank location reveal other types of unequal treatment experienced by African American testers. For example, both testers lived about an hour from the bank branch, but only the African American tester received a recommendation to visit a bank branch closer to his home, whereas the Caucasian tester was told that the business specialist was not in and received an offer to set up a meeting for the next time the business specialist was available.

> "At the end of the conversation the bank officer then suggested I visit the local branch of [X Bank] if I decide to apply with the bank. She thanked me for coming in and escorted me out."

Table 2. Examples of Unequal Treatment.

Test Group (African American)	Control Group (Caucasian)
Bank 1. Same loan officer met with both testers (one in the morning, one in the afternoon) on the same day	
"After a few seconds of pulling up information on the computer, she then states 'The last thing I have to check is to verify if the business is registered with the state and it good standing.' She pulls up a website called 'XXXX' and asks for the name of my business."	"When I said I was looking for loan information she asked me for the name of my company, [Company X] and what we did, I said we dealt in software vulnerability. She then asked how long I had been in business and I said six years."
Bank 2. Same loan officer met with both testers (one in the morning, one in the afternoon) on the same day	
"After providing this information, she inquired about how the business was registered. I informed her that it's registered as an LLC. She then pulled a site up on her computer and instructed me to spell the business name. She looked it up to see if it was in the database, which it was not. I explained that I was unsure why it wasn't appearing but agreed to have my accountant look into it. She replied: 'ok' and continued."	"She asked what type of loan I was looking for and I said that I didn't know. She asked what kind of business I had, how long I had it, and what the name of the business was. She asked about the kind of work that I do and I told her things like logos and websites.... She asked if I was by myself or with a partner and I said by myself."
Bank 3. Same bank, different loan officer for the two testers (one in the morning, and one in the afternoon) on the same day	
"She asked location, I said [Area X]. She asked why I was in the area, I said had potential client meeting. She asked who potential client was, I said [a government agency] but couldn't disclose more than that."	"We went over some basic details, including they type of business, what I do, the purpose of the loan, how long I've been in business, total sales, location of my business and the amount of the loan. She asked where I banked and I told her [name of bank]."
Bank 4. Same bank, different loan officer for the two testers (one in the morning, one in the afternoon), on the same day	
"At the end of the conversation the bank officer then suggested I visit the local branch of [X Bank] if I decide to apply with the bank. She thanked me for coming in and escorted me out."	"She asked about where I wanted to expand and I said I wanted an office space but wasn't sure where as I was still in the planning stages. She asked where I have bank accounts and I told her [X Bank]. She asked about what they offered, and I said I had some information from them but wanted to see more of what is out there...[more discussion]. She offered to go see about brochures and apologized, letting me know that the business specialist wasn't in that day [Thursday] and would be in tomorrow [Friday] and Saturday."

Limitations and Further Research

The findings of this research raise several important questions that are worthy of additional, rigorous study. By design, the field study controls for as many additional factors as possible. For example, only male testers were included in the study. Further research should investigate the possible exacerbating effects that other uncontrollable entrepreneur characteristics, such as age, gender, and other ethnicities (e.g., Hispanics) may have on access to small business capital.

We did not collect data about the perceived racial ethnicity of the bank representatives and loan officers who interacted with the study participants. It is possible that similarities and differences in racial ethnicity within the bank officer–entrepreneur dyad could exert distinct effects. Comparisons of minority–minority, Caucasian–minority, and Caucasian–Caucasian dyads, while testing for differences in applicant treatment, would offer an important and potentially enlightening avenue for research.

We employ a single methodology, though we believe that matched-pair mystery shopping testing reveals critical insights that are not available through other research approaches. Still, other approaches could help detect and prevent disparate treatment and discrimination in the small business loan process, such as post-application surveys, focus groups, and one-on-one personal interviews, as well as small business customer file reviews and on-site field observations and inspections. However, customer surveys, focus groups, and interviews are retrospective in nature, and consumers may not accurately recall all the details of the discussion. In addition, all these approaches fail to monitor the pre-application sales process, whereas matched-pair mystery shopping ostensibly replicates the real-world sales experience of potential customers, under strict guidelines. Continued research and policy making should rely on multiple methods to understand customers' actual treatment and experience.

Conclusion

A careful review of the current state of public policy, regulation, the small business economy, and the limited data availability pertaining to small business lending reveals a research and societal imperative to implement systematic data collection about small business lending practices. At this juncture, when new policy is being created around the implementation of Section 1071, reliable and accepted methods to supply useful data to policy makers are both timely and important. One approach is illustrated with our matched-pair mystery shopping case study, which sought to identify the potential presence of disparate and discriminatory treatment in the test condition.

Notwithstanding the insights and benefits of data-driven policies, the financial services industry has expressed concerns about Section 1071, including the burden that data reporting places on them. Financial institutions view this burden in terms of both additional monetary expenses to collect the information and staff hours needed to scrub personal data. Another concern is the cost associated with the initial implementation of new data collections. Although these concerns may be valid, the societal benefit of collecting HMDA data, in terms of increased and fair lending in the mortgage sphere, outweighs the burdens.

Our findings suggest that public policy makers, including the CFPB, need to engage in dialogue with the financial industry, regulators, and the public at large to highlight the social and economic imperatives of protecting small business entrepreneurial consumers too. Such discussions can be accomplished as the CFPB works with financial industry leaders to develop best practices and other compliance measures to ensure that all potential applicants receive information in the same manner, on a level playing field. Data collection efforts should concentrate on gathering information to ensure that

1. Loan information provided by loan officers does not vary, regardless of the consumer's race or ethnicity.
2. Bank officers impose a similar standard of scrutiny to all borrowers applying for a loan.
3. Bank officers provide appropriate encouragement and assistance to all potential loan applicants regardless of race or ethnicity.

In our case study, the tests were designed to present the African American tester as more creditworthy. Despite this status, several measures from the matched-pair mystery shopping study revealed that the African American testers experienced a higher level of scrutiny and received less assistance than their less creditworthy Caucasian counterparts. Also, African American testers were asked significantly more often about their marital status and their spouse's employment, which marks another and even illegal differential experience for entrepreneurial consumers.

Pre-application testing can be applied to enforce existing fair lending laws. Under ECOA, a creditor is prohibited from discriminating against a member of a protected class at any time during the credit transaction, including activities in the pre-application phase (59 Fed. Reg. 73, 1994). The results from our study indicate that matched-pair mystery shopping testing for enforcement purposes likely would reveal evidence that bank officers provide different information or services about credit availability, application procedures, and lending standards; discourage minority applicants from inquiring about or applying for small business credit; and use different (and sometimes illegal) standards to determine whether to extend credit (59 Fed. Reg. 73, 1994).

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Disinvestment, Discouragement and Inequity in Small Business Lending

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ABOUT NCRC

NCRC and its grassroots member organizations create opportunities for people to build wealth. We work with community leaders, policymakers and financial institutions to champion fairness in banking, housing and business.

Our members include community reinvestment organizations, community development corporations, local and state government agencies, faith-based institutions, community organizing and civil rights groups, minority and women-owned business associations, and social service providers from across the nation.

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ABOUT WKKF

The W.K. Kellogg Foundation (WKKF), founded in 1930 as an independent, private foundation by breakfast entrepreneur and innovator, Will Keith Kellogg, is among the largest philanthropic foundations in the United States. Guided by the belief that all children should have equal opportunities to thrive, WKKF works to create conditions in resource-denied communities for children can realize their full potential in school, work and life. The Kellogg Foundation is based in Battle Creek, Michigan, and works throughout the U.S. and internationally, as well as with sovereign tribes. Special emphasis is made on priority places where there are high concentrations of poverty, and where children face significant barriers to success. WKKF priority places in the U.S. are in Michigan, Mississippi, New Mexico and New Orleans; and internationally, are in Mexico and Haiti.

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EXECUTIVE SUMMARY

Small businesses are vital to the U.S. economy. The nation's 29.6 million small businesses generated over half of U.S. GDP in 2014 while employing nearly half of private-sector employees.[1] Starting and growing a business isn't easy, and access to startup, working and growth capital is a challenge both for entrepreneurs and for the local communities that benefit when small businesses succeed.

While the term "startup" may suggest Silicon Valley and the pursuit of tremendous growth with investment from venture capitalists, most small businesses don't fit or pursue that model. Instead, the majority of startup small businesses are involved in providing services and rely on the personal savings of the founders and their family. In 2015, startups relied on bank loans 8% and business credit cards 2% of the time. And while 57% of small businesses did not expand, 22% expanded with personal and family savings, while venture and angel capital accounted for less than 2% of financing.[2] Bank loans and business credit cards are more common sources of financing than venture capital, providing 5% and 2% of capital for established and expanding small businesses.

Banks play an important role in financing small business growth, yet the data on bank lending is limited. In 1977, the Community Reinvestment Act (CRA) required banks to report on the amount of small business lending to neighborhoods at different income levels in counties across the country. This was done to provide oversight and correct for a history of discriminatory lending practices against low-income and minority neighborhoods, commonly referred to as "redlining." While the CRA small business data provided some insight into lending patterns in low-income areas, it didn't provide data on the income or minority status of business owners. The only other publicly available data on small business lending comes from the small percentage of business loans backed by the Small Business Administration (SBA) 7(a), which comprises only 3% to 7% of small business loan volumes.[3] This lack of data cloaks bank small business lending practices, hindering regulators' and stakeholders ability to monitor and hold banks accountable.

To dig deeper, the National Community Reinvestment Coalition (NCRC) took two approaches. First, it used publically available data on small business lending to analyze bank lending practices from 2008 to 2016. Then, NCRC used mystery shoppers to examine differences in the customer service experiences for potential borrowers of different races in Los Angeles in 2018.

1 https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2017-WEB.pdf
2 https://www.sba.gov/sites/default/files/Finance-FAQ-2016_WEB.pdf
3 Consumer Financial Protection Bureau, Key Dimensions of the Small Business Lending Landscape at 19 (May 2017), https://bit.ly/2Uu7D23

The data and tests revealed a troubling pattern of disinvestment, discouragement and inequitable treatment for black and Hispanic-owned businesses.

This study found from 2008 to 2016:

- There were steep reductions in SBA 7(a) lending to black small business owners. This resulted in a decline from about 8% to 3% of loans during the Great Recession, a decline that has yet to recover.
- Business owners in wealthier areas received the largest share of loans - 85% in Milwaukee. In fact, in six of seven metro areas analyzed, more than 70% of loans went to middle- and upper-income neighborhoods.
- The number of bank branch locations declined 10% since 2009, likely affecting small businesses that are highly dependent on local-level banking relationships.
- Banks have not reinvested the increased capital that they accumulated through deposits after the end of the Great Recession back into small businesses. The most significant difference between deposits and loans occurred in New York City metro area, where deposits increased by 100%, but lending decreased by nearly 40%.
- There are tremendous gaps in black and Hispanic business ownership relative to their population size. Although 12.6% of the U.S. population is black, only 2.1% of small businesses with employees are black-owned. Hispanics are 16.9% of the population yet own only 5.6% of businesses.

Mystery shopping tests in 2018 revealed:

- Bank personnel introduced themselves to white testers 18% more frequently than they did to black testers. White testers received friendlier service overall.
- Black and Hispanic testers were requested to provide more information than their white counterparts, particularly personal income tax statements where Hispanic testers were asked to provide them nearly 32% and black testers 28% more frequently than their white counterparts.
- White testers were given significantly better information about business loan products, particularly information regarding loan fees where white testers were told about what to expect 44% more frequently than Hispanic testers and 35% more frequently than black testers.
- One area of customer service was significantly better for black and Hispanic testers – they received an offer to schedule an appointment to take their application more often, which happened 18% more frequently for black testers and 12% more often for Hispanic testers.

The analysis of lending practices used data reported by banks from seven U.S. cities: Atlanta, Houston, Los Angeles, Milwaukee, New York, Philadelphia and Washington, D.C. The limited data that banks are required to report on their small business lending show low levels of participation in entrepreneurship and lack of access to capital through the traditional banking market, especially for black and Hispanic business owners. In all seven cities, non-Hispanic white and Asian small business ownership is robust, while black and Hispanic small business ownership lags in comparison to their share of the population. The racial business-ownership divide is particularly pronounced when examining businesses with employees. This indicates that the benefits of small business growth in providing employment opportunities in minority communities are not being realized.

NCRC's findings show large gaps in black and Hispanic entrepreneurship when compared with Asian and white business owners. This gap is one of the fundamental causes of the racial wealth divide within the United States. The accessibility of credit is essential to establish and grow small businesses, yet lending to borrowers located in black and Hispanic neighborhoods severely lags. With the paucity of small business data, it is difficult to assess individual bank performance in small business lending. Failure to implement Section 1071 of the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd Frank Act) hampers the ability of regulators and the public to comprehensively understand whether capital is allocated in an equitable way to women-owned and minority-owned small businesses, a critical component to the operation of a modern economy.

NCRC's mystery shopping tests indicated that while the customer service experience of all applicants for small business credit is poor, it's even worse for black and Hispanic applicants. Despite the minority prospective customers' superior business profiles, they were asked to provide more documentation and given less information about loan terms than their white counterparts. This points to severe gaps in the training provided by banks to their small business lending specialists which can lead to inequities in service to borrowers and deter minorities from even considering getting a loan from traditional banking sources.

INTRODUCTION

While many view homeownership as one of the principal ways to build wealth,[4] small business ownership can provide opportunities for people to increase their income, independence and ultimately their economic freedom. This is especially true for minorities, women and immigrants who might not otherwise be able to move into the mainstream economy.[5] In addition to wealth-building, small businesses drive economic growth, create jobs and have the ability to revitalize the economy.[6] From 1992 to 2013, small businesses[7] accounted for 63.3% of net new jobs.[8] In the early 2000s, minority-owned businesses employed more than 4.7 million people with an annual payroll of $115 billion.[9] Small businesses increase local employment opportunities, provide goods and services to local residents and generate higher levels of income growth within neighborhoods.[10]

Access to responsible, affordable capital is essential for small businesses to operate and expand. Adequate capital enables owners to hire more workers and make other investments to scale-up and improve business operations as demand increases. According to the 2018 Small Business Credit Survey, traditional bank lending continues to be the primary source of funding for small businesses.[11] In turn, banks rely heavily on small business loans to meet their obligations under CRA. Sixty-seven percent of small business loans (7.5 million loans valued at $256 billion) qualify for CRA credit (compared to just 12% of single-family mortgage loans).[12] The steady hikes in interest rates by the Federal Reserve makes small business loans increasingly profitable while still enabling banks to offer the lowest interest rates and best term lengths.[13]

Despite their importance in the economy, small businesses, particularly black and Hispanic-owned small businesses, face many barriers. This is reflected in lower rates of business ownership among minorities. The last U.S. Census Survey of Business Owners (SBO) shows that while the black population comprises 12.6% of the total U.S. population, they make up just

4 Edward N. Wolff, *Has Middle Class Wealth Recovered?*, at 28 (Nov. 2017) https://www.aeaweb.org/conference/2018/preliminary/paper/5ZFEEf69 accessed May 6, 2019.

5 Woodstock Institute, Patterns of Disparity: Small Business Lending in the Buffalo and New Brunswick Regions, at 1 (April 2017), https://bit.ly/2vlzozP.

6 Archana Pradhan & Josh Silver, National Community Reinvestment Coalition Analysis: Small Business Lending Deserts and Oases, National Community Reinvestment Coalition at 11 (September 2014), https://bit.ly/2Uw4uhX.

7 A small business is defined as an independent business with fewer than 500 employees (U.S. Small Business Administration 2017).

8 U.S. Small Business Administration (2016), Frequently Asked Questions, accessed April 19, 2019, https://bit.ly/2l9WGBV.

9 Archana Pradhan & Josh Silver, *National Community Reinvestment Coalition Analysis: Small Business Lending Deserts and Oases*, National Community Reinvestment Coalition at 13 (September 2014), https://bit.ly/2Uw4uhX.

10 Woodstock Institute, *Patterns of Disparity: Small Business Lending in the Buffalo and New Brunswick Regions*, at i (April 2017), https://bit.ly/2vlzozP.

11 Federal Reserve Banks, *Small Credit Business Credit Survey: Report on Employer Firms* at 7 (2019), https://bit.ly/2lJuuEq.

12 Laurie Goodman, et al. *Small Business and community development lending are key to CRA compliance for most banks*, Urban Wire: Economic Growth and Productivity (Feb. 2019), https://urbn.is/2vlAkUR.

13 Rohit Arora, *Four Reasons Why Small Business Lending is Hot*, Forbes (May 2018), https://bit.ly/2GAQ3EL.

9.5% of all business owners and own just 2.1% of firms with employees.[14] This contrasts with the white non-Hispanic population who comprise 62.8% of the U.S. population, own 70.9% of all businesses and 81.6% of the firms with employees. There is a wide disparity in both the revenue and size of black and Hispanic-owned businesses when contrasted with other groups.[15] These low rates of business ownership and size, along with other factors, such as lower rates of homeownership, contribute to the widening wealth gap between minority groups and the white non-Hispanic population.[16]

Current data provide little insight into the small business lending market. Unlike mortgage lending, banks are not required to collect or report comprehensive data on individual business loans. The only publicly available data with an annual reporting criteria is CRA reporting data, which is aggregated, and data on the small number of loans backed by the SBA. There are limited data releases made by the SBO and Federal Financial Institutions Examination Council (FFIEC). None of these sources provide comprehensive information about individual loans, total investment or the demographics of borrowers. Congress recognized this problem following the 2008 financial crisis with the passage of the Dodd-Frank Act.[17] Section 1071 of the Dodd-Frank Act called for banks to start collecting and reporting on information concerning credit applications made for small business loans. However, the Consumer Financial Protection Bureau (CFPB), the agency responsible for implementing these reporting requirements, has yet to move forward with implementation and does not appear to have any plans to do so in the near future. Section 1071 would provide valuable insight for understanding this nebulous market and enable regulators and stakeholders to hold banks accountable for their small business lending practices.

In addition to the lack of insight into the overall lending market, the experiences of small business owners who are attempting to access capital in the traditional banking marketplace are not well known. A 2016 survey by the Federal Reserve Bank[18] found that the majority of small business owners (55% of those surveyed) did not even attempt to apply for credit. One of the leading reasons for this was "discouragement," meaning they did not apply for financing "because they believed they would be turned down." Another Federal Reserve Bank study found that 22.2% of minority neighborhood businesses were discouraged borrowers, compared to 14.8% of businesses from other urban localities.[19] The banking experience matters. When small business owners face poor customer service and lack of information, they turn to alternative sources of funding to grow their businesses. These alternative sources

14 United States Census Bureau, *Survey of Business Owners (SBO) Survey Results: 2012* https://www.census.gov/library/publications/2012/econ/2012-sbo.html accessed April 19, 2019.

15 McManus, M., *Minority Business Ownership: Data from the 2012 Survey of Business Owners,* U.S. Small Business Administration Issue Brief (Sept. 14, 2016) https://bit.ly/2cXNsWa.

16 Lisa Dettling et al., *Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances*, Board of Governors of the Federal Reserve System, FEDS Notes (Sept. 27, 2017) https://bit.ly/2wmxwp9.

17 Pub. L. No. 111-203 § 929-Z, 124 Stat. 1376, 1871 (codified 15 U.S.C. § 78o).

18 Federal Reserve Banks, *Small Credit Business Credit Survey: Report on Employer Firms* at 7 (2016), https://nyfed.org/2oan3s7.

19 Ann M. Wiersch et al. Barkley, *Click, Submit: New Insights on Online Lender Applicants from the Small Business Credit Survey*, Federal Reserve Bank of Cleveland (Oct 2016), http://bit.ly/2sYZju2.

of credit, like online lending, could further hinder a small business's ability to flourish since alternative sources are often unregulated and could lead to higher interest rates and predatory loan terms.

In this report, NCRC utilized the limited publically available data to conduct a seven-city survey in an attempt to get a baseline understanding of how lending institutions are investing in small businesses. The analysis of lending practices used data reported by banks from Atlanta, Houston, Los Angeles, Milwaukee, New York, Philadelphia and Washington, D.C. Despite the increase in overall deposits throughout the seven cities, the volume and amount of small business loans reported by banks under the CRA stagnated in all but one market, Houston. NCRC also conducted small business lending mystery shopping at banking institutions in Los Angeles to gain a better understanding of the level of customer service business owners encountered in the traditional lending market.

Literature review: Racial bias in the financial market

The history of racial bias in mortgage and small business lending industry is well documented.[20] The disparity in financial access is rooted in segregationist and discriminatory practices such as redlining and steering. This history of discrimination impeded the full economic participation of minorities and served as the motivation for the Fair Housing Act of 1968 and for the enactment of CRA in 1977.[21]

Despite efforts to correct disparities in financial access, recent scholarship suggests that discriminatory practices persist among lenders and in some markets. This was the topic of a landmark study by the Federal Reserve Bank of Boston in 1996,[22] which examined whether there were higher mortgage lending denial rates for black and Hispanic borrowers relative to white borrowers. Even after considering a wide range of variables associated with creditworthiness, black borrowers were still 8% less likely to receive loan approval than white borrowers. These findings were controversial, both in their implications and from a methodological standpoint, and sparked subsequent studies, notably research on small business lending by Blanchflower *et al.* (2003).[23] The conclusions of that study indicated that the high rate of minority denials and high credit costs were attributable to lenders considering the personal traits of the potential borrowers, rather than their creditworthiness. This long-standing denial of access to credit has discouraged black business owners from applying for credit.[24] Discouragement suppresses the demand for access to credit markets and masks the impact of denials by diminishing the number of black-owned business loan applications. In addition to discouragement and diminishing applications, black-owned businesses

20 Mehrsa Baradaran, *The Color of Money: Black Banks and the Racial Wealth Gap* (2017); Richard Rothstein, *The Color of Law: A Forgotten History of How our Government Segregated America* (2017).

21 42 U.S.C. ch. 69 § 5301.

22 Alicia H. Munnell et al., *Mortgage Lending in Boston: Interpreting HMDA Data,* American Economic Review vol. 86 no. 1 (March 1996).

23 David G. Blanchflower et al., *Discrimination in the Small Business Credit Market,* Review of Economics and Statistics, vol. 85 (4) (Aug. 2002).

24 Federal Reserve Banks, *Small Credit Business Credit Survey: Report on Employer Firms* at 7 (2016), https://nyfed.org/2oan3s7.

face higher rates of denials and pay higher interest rates than white-owned businesses. A study by Asiedu (2012) showed higher denial rates for black and female-owned businesses, with increasing rates of denial over the study period from 1998-2003. It also confirmed the Blanchflower *et al.* study, finding that banks consistently charged these businesses with higher interest rates.[25]

Cavalluzzo and Wolken (2005)[26] studied the role a business owner's wealth and race played in small business lending decisions. The study identified substantial differences between racial and ethnic groups. While greater personal wealth, specifically homeownership, was associated with a lower probability of denial, even after controlling for wealth, there were differences in denial rates across groups. Cavalluzzo and Wolken concluded, "…information on personal wealth explained some of the differences between Hispanic and Asian-owned business and those owned by whites, but almost none for African American businesses." [27] A study by Bates & Robb (2016)[28] found that higher rates of rejection and lower loan amounts typified lending to black and Hispanic-owned minority business enterprises (MBE). This raised the question of whether a business's location in a minority neighborhood or owner race was a contributing factor in loan decision-making. While MBEs are concentrated in minority neighborhoods, white-owned businesses in minority neighborhoods had significantly higher rates of loan acceptance. The study concluded that greater business-owner wealth, not the location in a minority neighborhood, opened doors to credit opportunity, while owner race closed them. A further study by Fairlie, Robb & Robinson (2016) of capital acquisition by start-up small businesses found that even though differences in creditworthiness were important, after controlling for a diverse set of firm and founder characteristics, there were consistently higher rates of loan denial to black-owned businesses.[29] Additionally, in accord with Blanchflower's 2003 study, much higher levels of owner discouragement were noted among minority business-owners.

The literature shows that higher denial rates for black and Hispanic small business loan applicants are an ongoing issue. However, causality and linkage with discriminatory practices are more difficult to assess. Several problems impact research in this area, most pronounced are inadequacies of the currently available datasets. Specifically, the linkage between applicants' race/ethnicity and credit scoring is difficult to assess.

The work undertaken in this report expands upon earlier work by NCRC's research team, which culminated in the publication of "Shaping small business lending policy through matched-

25 Elizabeth Asiedu et al., *Access to Credit by Small Businesses: How Relevant Are Race, Ethnicity, and Gender?*, American Economic Review: Papers and Proceedings 102(3): 523-637 (2012).

26 Ken Cavalluzzo & John Wolken, *Small Business Loan Turndowns, Personal Wealth, and Discrimination*, Journal of Business, vol. 78, issue 6, 2153-2178 (2005).

27 *Id.* at 2171.

28 Timothy Bates & Alicia Robb, *Impacts of Owner Race and Geographic Context on Access to Small-Business Financing,* Economic Development Quarterly 30(2) (Dec. 2015).

29 Fairlie, Robert, Alicia Robb, and David T. Robinson. "Black and white: Access to capital among minority-owned startups." *Stanford Institute for Economic Policy Research discussion paper* (2016): 17-03.

pair mystery shopping."[30] This paper notes many inadequacies in the current reporting and regulatory frameworks for small business lending. These inadequacies are especially relevant for minority entrepreneurs, vulnerable groups who have been subject to exploitation and discrimination in the financial products marketplace. The earlier study also implemented a mystery shopping framework to gather information on discrimination against minority small business entrepreneurs who sought financing to expand their businesses.

CURRENT SMALL BUSINESS LENDING DATA:

The proverbial black hole

Robust data collection and analysis is vital for any business to succeed. In the lending market, data collection enables better tracking of access to credit, identification of barriers to access and informs efforts to overcome these barriers. Simply put, better data on lending markets will improve access to credit.[31] Without robust reporting requirements, stakeholders have no means of holding lenders accountable for meeting the credit needs of the markets they serve. Data is not just an important tool for advocates and regulators. Data enables lenders to identify missed profitable opportunities and correct potential costly fair lending violations.

The 2008 mortgage crisis perfectly illustrated the need for more insight into the financial industry's lending practices. This need was not just for mortgage lending. Congress recognized a broader need with the passage of Section 1071 of the Dodd-Frank Act.[32] Section 1071 amended the Equal Credit Opportunity Act (ECOA)[33] to require financial institutions to compile, maintain and report information concerning credit applications made by women-owned and minority-owned small businesses. The purpose of Section 1071 was to "facilitate the enforcement of fair lending laws and enable communities, governmental entities and creditors to identify business and community development needs and opportunities of women-owned, minority-owned and small businesses."[34]

These types of reporting requirements were not a new concept. In 1975, Congress implemented the Home Mortgage Disclosure Act (HMDA),[35] recognizing that some financial institutions had contributed to the decline of certain neighborhoods by their failure to provide adequate home financing to qualified applicants. The banking industry's history of residential steering, restrictive covenants and redlining took a huge toll in urban areas.[36] HMDA enabled the public to view banks' lending information to determine whether financial institutions were serving the housing

30 Sterling A. Bone et al., *Policy Watch: Shaping Small Business Lending Policy Through Matched-Pair Mystery Shopping*, Journal of Public Policy & Marketing 1-9 (2019) https://bit.ly/2QAmNT7.

31 Archana Pradhan & Josh Silver, *National Community Reinvestment Coalition Analysis: Small Business Lending Deserts and Oases*, National Community Reinvestment Coalition at 11 (September 2014), https://bit.ly/2Uw4uhX.

32 Pub. L. No. 111-203 § 929-Z, 124 Stat. 1376, 1871 (codified 15 U.S.C. § 78o).

33 15 U.S.C § 1691 et seq.

34 15 U.S.C. § 1691c-2(a).

35 12 U.S.C. ch. 29 §§ 2801-2811, amended by 12 U.S.C. ch. 3 § 461 et seq.

36 Richard Rothstein, The Color of Law: A Forgotten History of how our Government Segregated America (2018).

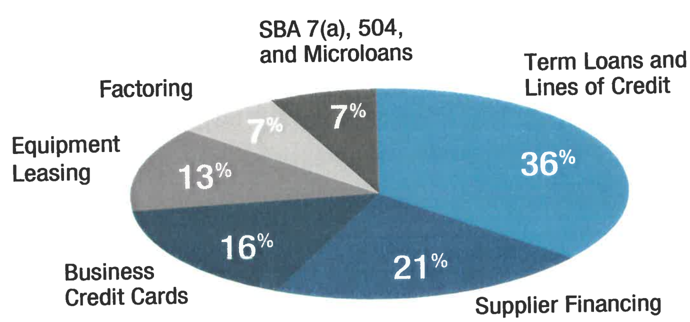
and credit needs of the communities in which they're located. HMDA required the collection and disclosure of data about applicant and borrower characteristics to assist in identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes. The goal of Section 1071 is to apply the same type of reporting requirements to small business loans.

The Dodd-Frank Act tasked the CFPB with the responsibility of centralizing the collection of small business lending data and making that data public. However, it's been over eight years since the passage of the act, and Section 1071 still has not been implemented. The CFPB's only concrete step to move forward with the collection of data required under 1071 was to release a request for information regarding the small business lending market in the summer of 2017. Over ten years later, it remains on the bureau's "pre-rule" agenda. It is unclear when, if ever, banks will be held responsible for collecting small business data, and when the public will gain insight into this vital aspect of wealth-building in the U.S.

Publically available small business lending data: More questions than answers

In its 2017 white paper on the small business lending landscape, the CFPB estimated that the total aggregate amount of debt financing available to small businesses was approximately $1.4 trillion.[37] This included an estimate of all available capital including term loans and lines of credit, supplier financing, equipment leasing, business credit cards, SBA and microloans, factoring and merchant cash advances.

Small Business Lending a $1.4 Trillion Market



Source: CFPB 2017

However, without the implementation of any meaningful, concrete data reporting requirements for lending institutions, these are just *estimates.* The CFPB utilized data released from the SBA in 2013 and admitted that "currently there is only a very limited ability to accurately size the small business lending market even by broad product categories, let alone subcategories."[38]

37 Consumer Financial Protection Bureau, Key Dimensions of the Small Business Lending Landscape at 19 (May 2017), https://bit.ly/2Uu7D23.

38 Consumer Financial Protection Bureau, *Key Dimensions of the Small Business Lending Landscape* at 20 (May 2017), https://bit.ly/2Uu7D23.

Upon request, the SBA will provide data on its loan programs, including 7(a), 504 and microloans. While the SBA only comprises a small percentage of small business loan volumes, (3% to 7%), it is an important program in enabling minority access to capital, though the equity and efficiency of the program's recent performance have been questioned.[39]

Data collected under the CRA offers some additional insight, but CRA data only shows the aggregate dollar volume of loans originated to businesses with revenues less than $1 million, not individual loan amount or type of loan, and is only required from institutions with assets over $1.2 billion.[40]

Community Reinvestment Act Lending by Banks

Lending Type	Total Loans	Value of Loans (in billons)	Share counted as CRA credit (# of loans)	Amount counted as CRA credit (# of loans)	Share counted as CRA credit ($ volume)	Amount counted as CRA credit ($ volume)	Average loan size
Single-Family	3,490,000	$914	20.7%	723,822	11.9%	$108	$261,891
Multifamily	34,656	$114	37.4%	12,971	29.3%	$33	$3,289,474
Small Business	7,476,495	$256	37.0%	2,762,600	67.1%	$172	$34,303
Small Farm	177,949	$13	60.8%	108,255	77.7%	$10	$75,375
Community Development	26,397	$96	~100%	26,397	~100%	$96	$3,649,258

Table 1 Small business, small farm, mortgage lending and community development activities captured by the CRA reporting guidelines for 2016. (Source: Urban Institute calculations from the Home Mortgage Disclosure Act and Federal Financial Institutions Examinations Council loan files))

Using CRA reported data, the FFIEC provides publicly available data on loans by census tract and income category; however, similar to CRA data, it aggregates the loans by revenue size of the business (above and below $1 million) and loan dollar amount (below $100,000, $100,000–$250,000 and above $250,000).

Earlier this year, the Federal Deposit Insurance Corporation (FDIC) released its own small business lending data based on a nationally representative survey of 1,200 banks.[41] It found that currently available data drastically understates the extent of small business lending, especially for small banks. This emphasizes the need for enhanced data collection so that the public can more fully understand the extent of the business lending market.

39 Derke Hyra & Meghan Doughty, *SBA Lending Equity and Efficiency Challenges,* Metropolitan Policy Center School of Public Affairs (Dec. 2014), https://bit.ly/2lLhRJ1.

40 Consumer Financial Protection Bureau, *Key Dimensions of the Small Business Lending Landscape* at 33 (May 2017), https://bit.ly/2Uu7D23.

41 Federal Deposit Insurance Corporation, 2018 Small Business Lending Survey https://www.fdic.gov/bank/historical/sbls/ accessed April 19, 2019.

NCRC RESEARCH

In an attempt to gain insight into this opaque market, NCRC engaged in a seven-city survey focused on small business lending practices from 2008 to 2016. NCRC examined Atlanta, Houston, Los Angeles, Milwaukee, the five boroughs of New York City, Philadelphia and Washington, D.C. The study group is representative of a range of regional economies, from large, thriving economies like New York City to smaller, lower-performing economies like Milwaukee.

NCRC's report uses data derived from the limited publicly available sources: CRA related FFIEC small business reporting aggregate and disclosure files and SBA lending data for the 7(a) program. [42] Additionally, data from both the Survey of Business Owners and Self-Employed Persons (SBO 2012) and the Annual Survey of Entrepreneurs (ASE 2016) was used to evaluate the levels of entrepreneurship by race/ethnicity.[43]

Overall investment in small business loans

As noted, the lack of data makes it extremely difficult to make meaningful inferences about the small business lending market, especially considering the large increases in bank deposits in the major markets of New York City, Los Angeles, Houston and Philadelphia during NCRC's study period. As these increases in deposits in local institutions climbed, the volume and amount of small business loans reported by depository institutions under CRA (i.e., loans over $1 million) stagnated in all but one market (Houston). It is difficult to assess how local banks are investing their increasing deposits, but the CRA reporting suggests that the increased capital is not being invested in small business loans. The mismatches shown below – of increasing deposits but decreased small business lending – have been a national trend. However, without further data, it is impossible to know if banks are doing substantially less lending or if lending activity shifted to much larger loans. The CRA data on lending by depository institutions in these metro areas indicate that, at the very least, the average size of small business loans is decreasing.

42 FFIEC, Community Reinvestment Act Aggregate & Disclosure Files https://www.ffiec.gov/cra/craflatfiles.htm.

43 United States Census Bureau, Annual Survey of Entrepreneurs (ASE) Tables (2016) https://www.census.gov/programs-surveys/ase/data/tables.html.

Atlanta: While deposits increased by 15%, small business lending by depository institutions declined over 40% during the period.

Atlanta
Deposits & Business Loans

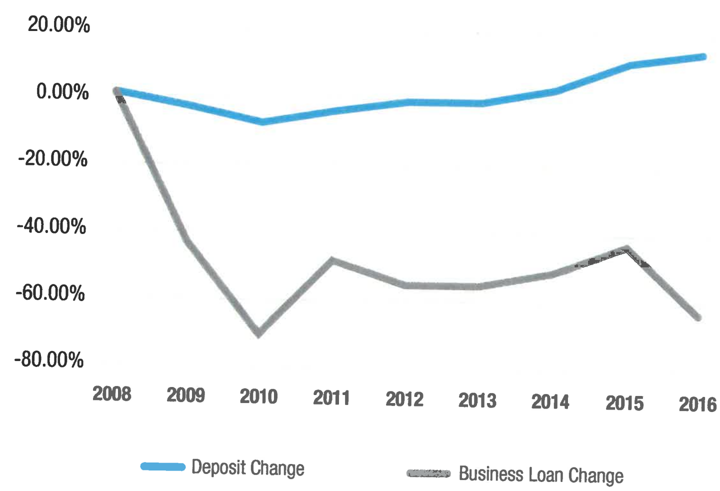


Figure 1: Percent change in bank deposits and small business loans for all banks in the Atlanta market.

Houston: While deposits increased by 100%, small business lending by depository institutions increased by just 19% during the period.

Houston
Deposits & Business Loans

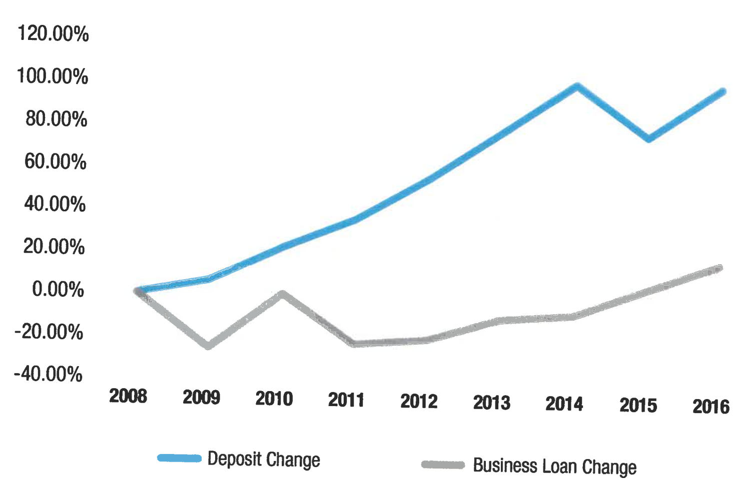


Figure 2: Percent change in bank deposits and small business loans for all banks in the Houston market.

Los Angeles: While deposits increased by 60%, despite Los Angeles' robust economy, small business lending by depository institutions decreased by 20%.

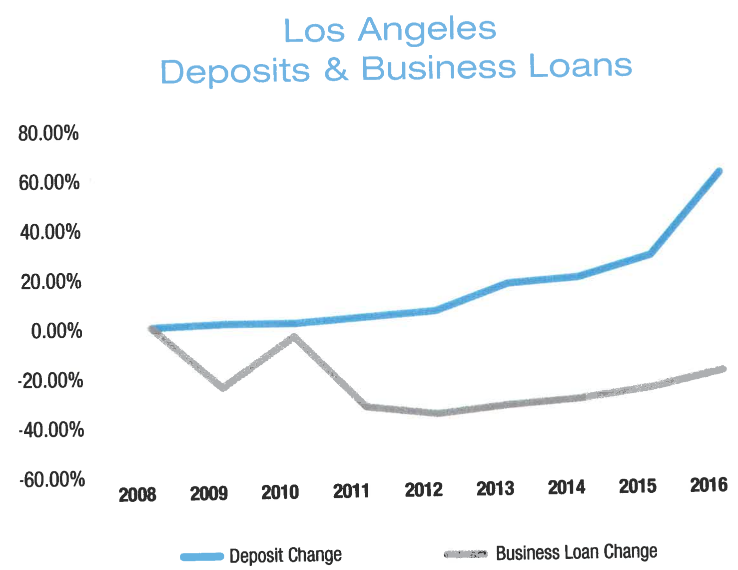


Figure 3: Percent change in bank deposits and small business loans for all banks in the LA market.

Milwaukee: While deposits increased by 25%, small business lending by depository institutions decreased by nearly 20%.

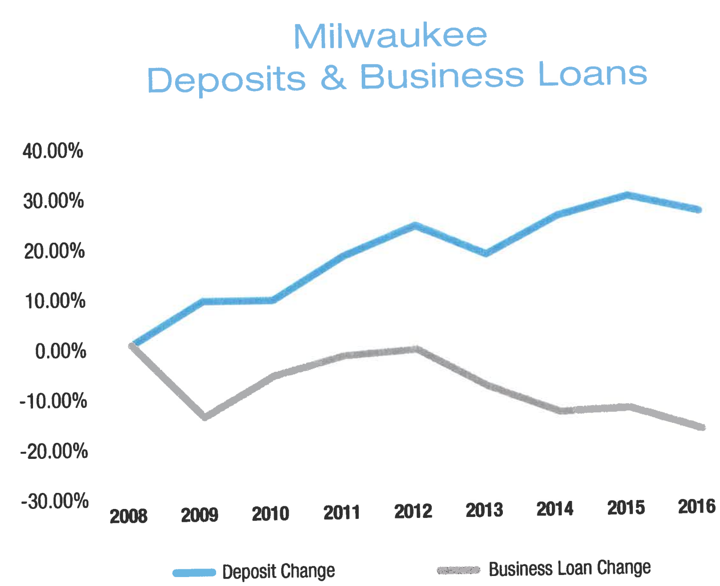


Figure 4: Percent change in bank deposits and small business loans for all banks in the Milwaukee market.

New York: While deposits increased by 100%, small business lending by depository institutions decreased by nearly 40% throughout the five boroughs.

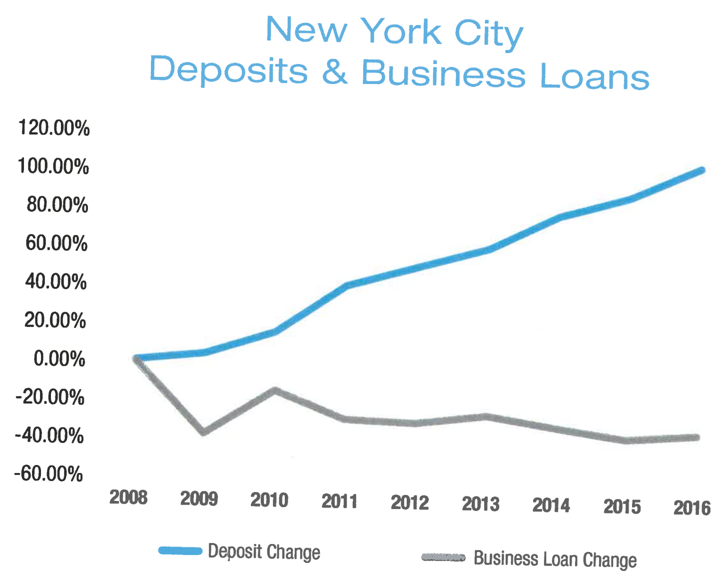


Figure 5: Percent change in bank deposits and small business loans for all banks in the New York market.

Philadelphia: Deposits did not increase in the Philadelphia market. Small business lending by depository institutions decreased by nearly 20% below 2008 levels.

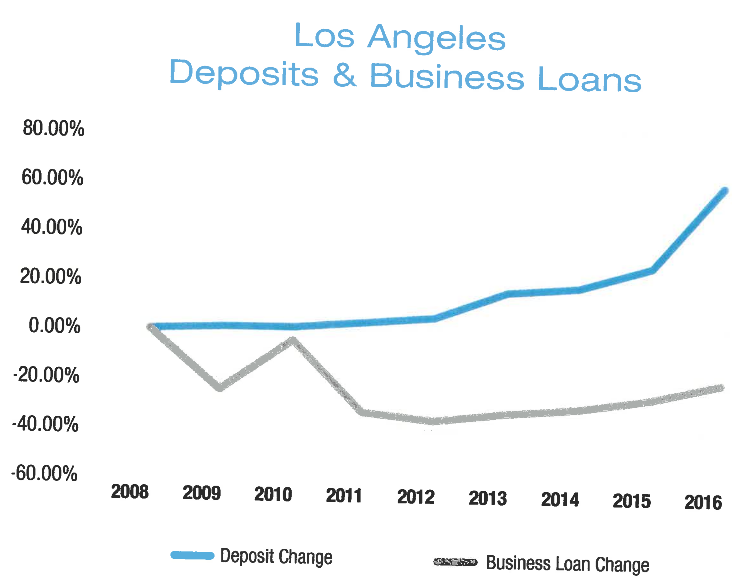


Figure 6: Percent change in bank deposits and small business loans for all banks in the Philadelphia market.

Washington, D.C.: Deposit increases reached over 35% in the Washington, D.C., market. Small business lending by depository institutions decreased by nearly 20% from 2008 levels.

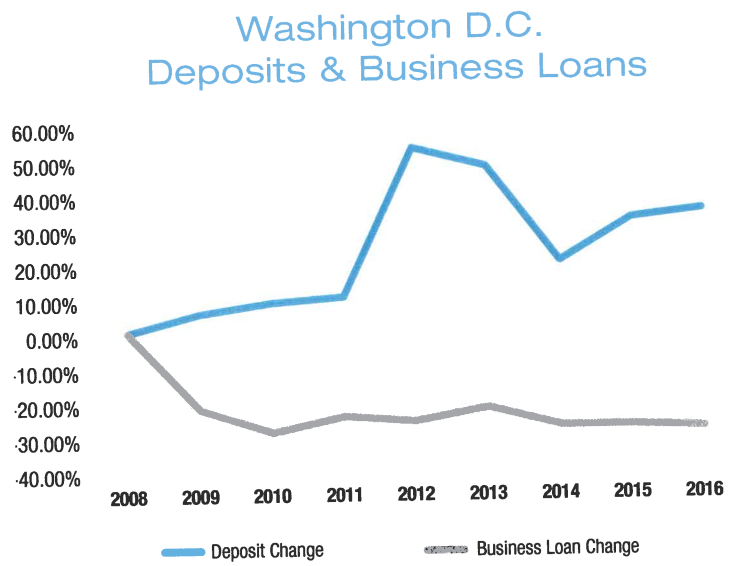


Figure 7: Percent change in bank deposits and small business loans for all banks in the Washington, D.C. market.

The racial divide

The other major finding of this report is the large divide in black and Hispanic business-ownership relative to their proportion of the population. While the SBO reports that the overall number of firms owned by minorities is robust, a close analysis reveals disparities in the types of businesses owned by black and Hispanic entrepreneurs. For instance, over 2.5 million businesses were black-owned in 2012. However, only 109,000 of these firms had employees, resulting in only 2.1% of firms with employees being black-owned. Black and Hispanic-owned businesses greatly lag Asian and non-Hispanic white-owned businesses in terms of both sales and employment. The Office of Advocacy of the SBA noted the disparity in both the revenue and size of black and Hispanic-owned businesses when contrasted with other groups.[44]

44 Office of Advocacy U.S. Small Business Administration, *Small Business Lending in the United States* (Sept. 2018), https://www.sba.gov/sites/default/files/Small-Business-Lending-in-US-2016-Report.pdf.

Business ownership by race/ethnicity with percentage of total population

Race/Ethnicity of business-owner	All firms number businesses	% of all firms	% firms with employees	% of U.S. population
Asian	1,917,902	7.10%	9.40%	5.00%
Black	2,584,403	9.50%	2.10%	12.60%
Hispanic	3,305,873	12.20%	5.60%	16.90%
Native American	272,919	1.00%	0.50%	0.20%
White non-Hispanic	19,278,260	70.90%	81.60%	62.80%

Table 2 Business ownership by race/ethnicity with percentage of total population (Source: 2012 Survey of Business Owners, and 2010 U.S. decennial census data.)

NCRC's study areas reflect this same racial gap in business ownership. Non-Hispanic white and Asian small business ownership is robust in all metro areas studied. In every case, black and Hispanic small business owners fall far below their representation as a share of the population in the area.

Race/Ethnicity of Business Owners for All Firms 2012

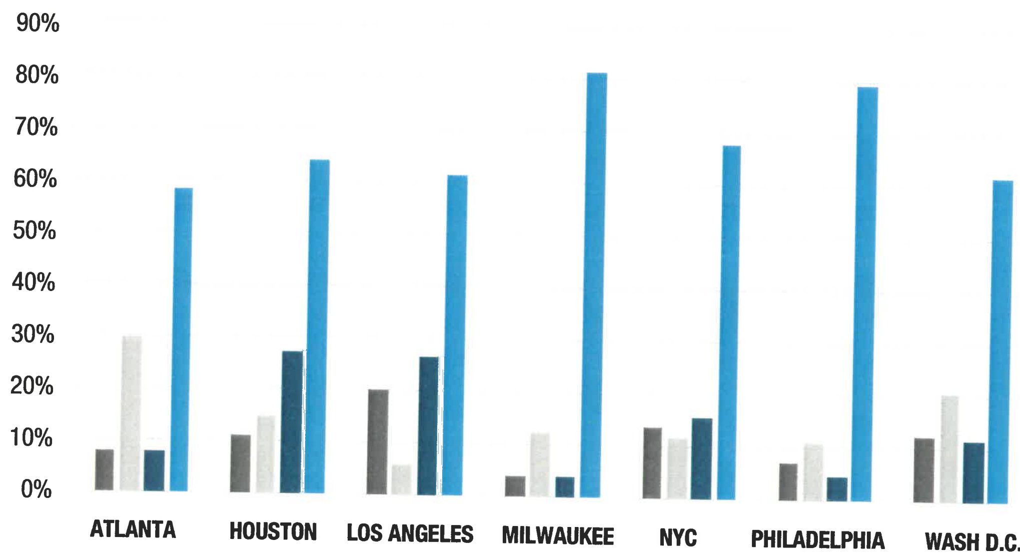


Figure 8: Race and ethnicity of business-owners of all firms for selected cities (Source: 2012 SBO)

Minority ownership of firms with employees

Firms with employees are critical for communities since they expand job opportunity beyond the business owner. While any small business is an important component to local economies, businesses without employees are often a "wage-replacement" strategy for underemployed individuals, which supply benefits that are inferior to those of employer-provided jobs.[45] As a consequence, the data in this analysis compares the residential percentage of population with minority business ownership of firms with employees.

Black small business ownership of firms with employees lags far behind their percentage of the residential population. Even in Atlanta, New York and Washington, D.C., cities with the highest levels of black entrepreneurship, there are low levels of ownership relative to the percentages of black residents.[46]

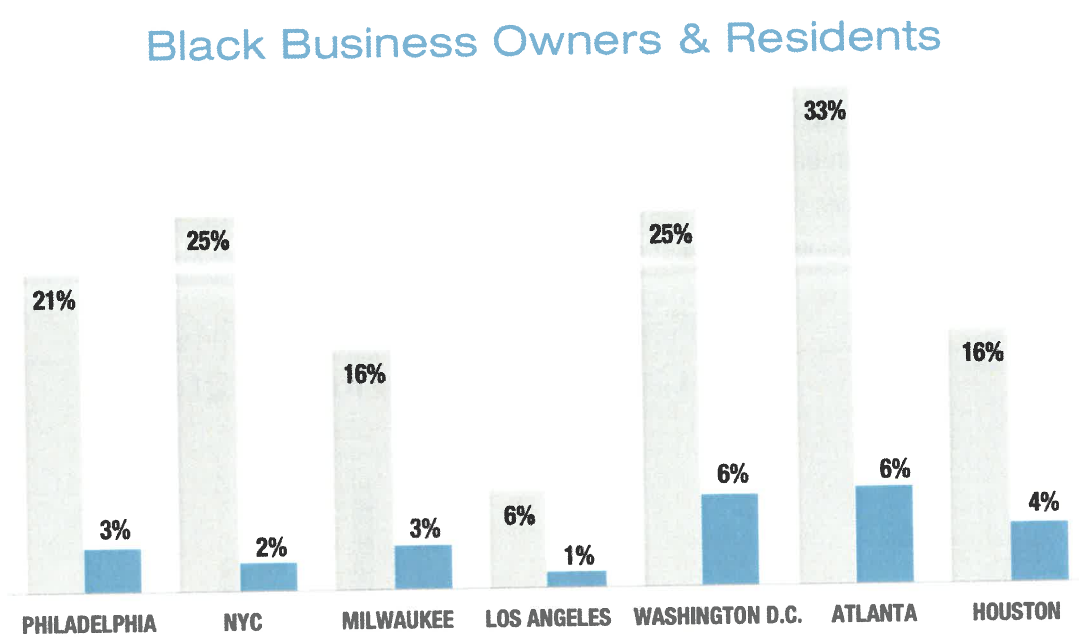


Figure 9: Percentage of black business-owners with employees compared to percentage of residential population for selected cities. (Source: 2012 SBO and 2010 U.S. Census Data)

45 Scott Shane, *Why encouraging more people to become entrepreneurs is bad public policy,* Small Business Economics 33:141-149 (2009).

46 SBO 2012 and 2010 Decennial Census

Hispanic small business ownership of firms with employees is higher than black ownership relative to population size in most markets. However, Hispanics still lag far behind Asian and white business ownership levels.[47]

Hispanic Business Owners & Residents

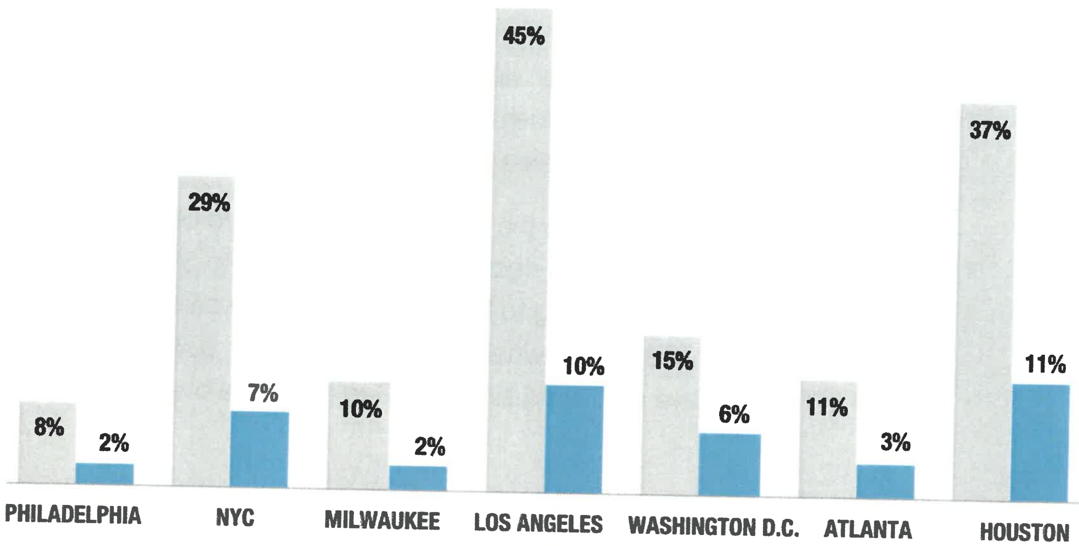


Figure 10: Percentage of Hispanic business-owners with employees compared to percentage of residential population for selected cities. (Source: 2012 SBO and 2010 U.S. Census Data)

In all of the study areas, white entrepreneurship exceeds that of minorities relative to their percentages of the population.

White Business Owners & Residents

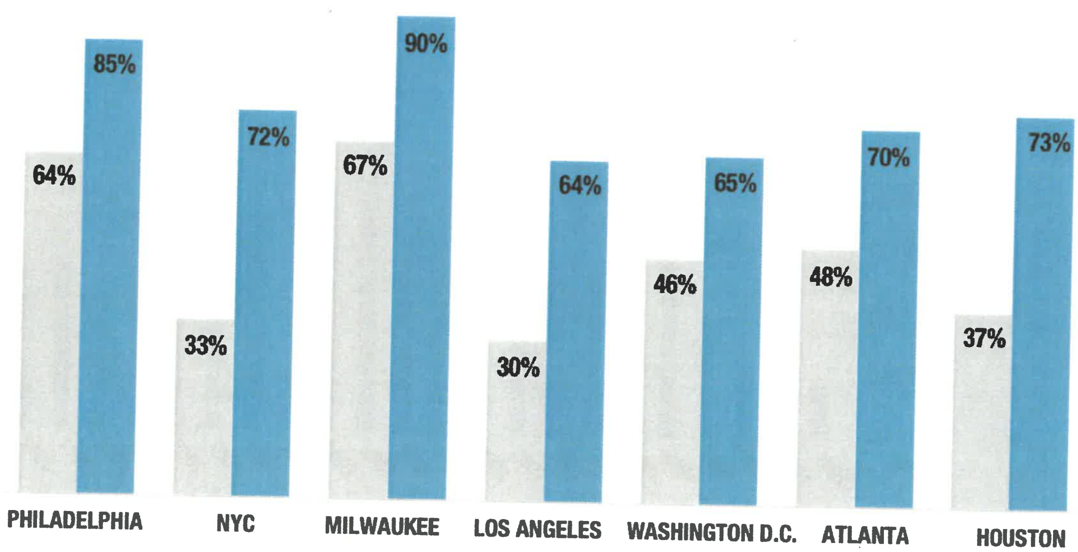


Figure 11: Percentage of white business-owners with employees compared to percentage of residential population for selected cities. (Source: 2012 SBO and 2010 U.S. Census Data)

47 Source SBO 2012 and 2010 Decennial Census.

Small Business Administration 7(a) loans

NCRC's examination of SBA lending data shows similar gaps in black and Hispanic participation in the business lending marketplace reflected in the low lending volumes for those groups under the SBA 7(a) guaranteed loan program.

The SBA was established by Congress in 1953 to increase the availability of credit to small businesses. The SBA lending program is designed to reduce the risk of lending for banks, thereby increasing the access to capital for qualifying small businesses. Overall, lending patterns since 1991 show considerable growth from 2001 to 2007, followed by a precipitous decline over the following two years of the Great Recession.

The SBA data shows that, while the percentage of loans to black small businesses increased from 2006 to 2008, these loans declined from about 8% to 3% during the Great Recession and have yet to recover. Lending to Hispanic business owners has been flat, around 5% through 2017. Loans to Asian owners declined from over 20% of SBA 7(a) loans in 2007 to 15% in 2009, but have recovered since 2013 to comprise over 20% of the total number of loans.

The SBA does not provide individual demographic or economic data for borrowers in its programs. Since SBA lending is such a small portion of business lending, it is difficult to assess the entire market with just a few inferences.

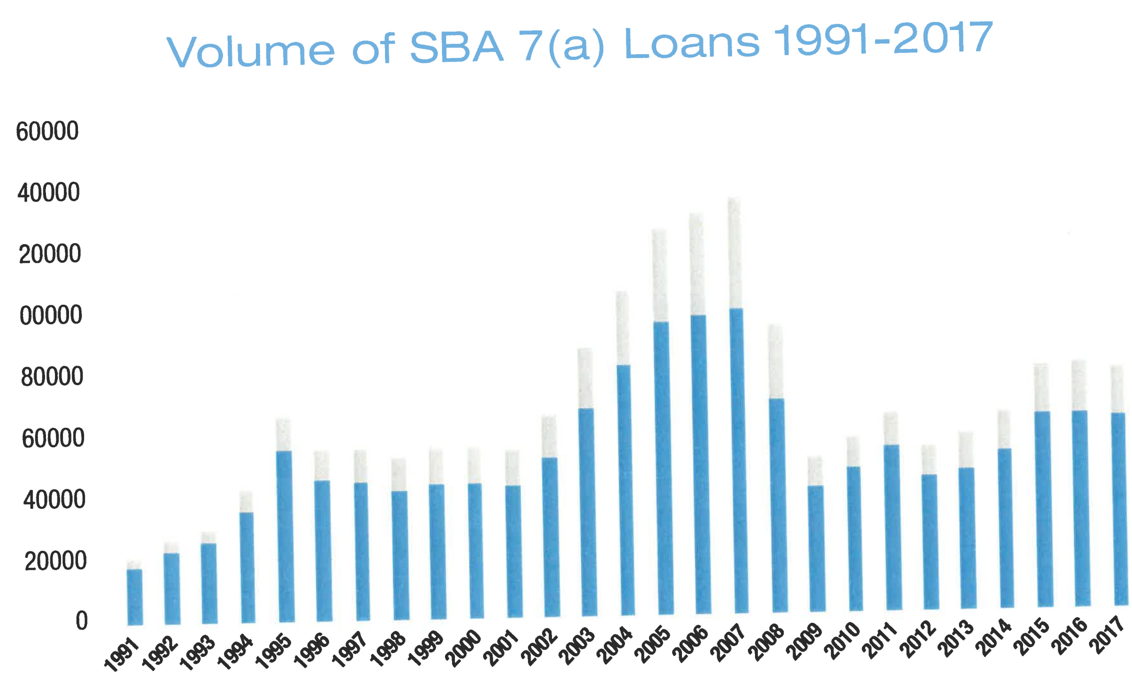


Figure 12: Lending under the SBA 7(a) program since 1991. (Source: Small Business Administration)

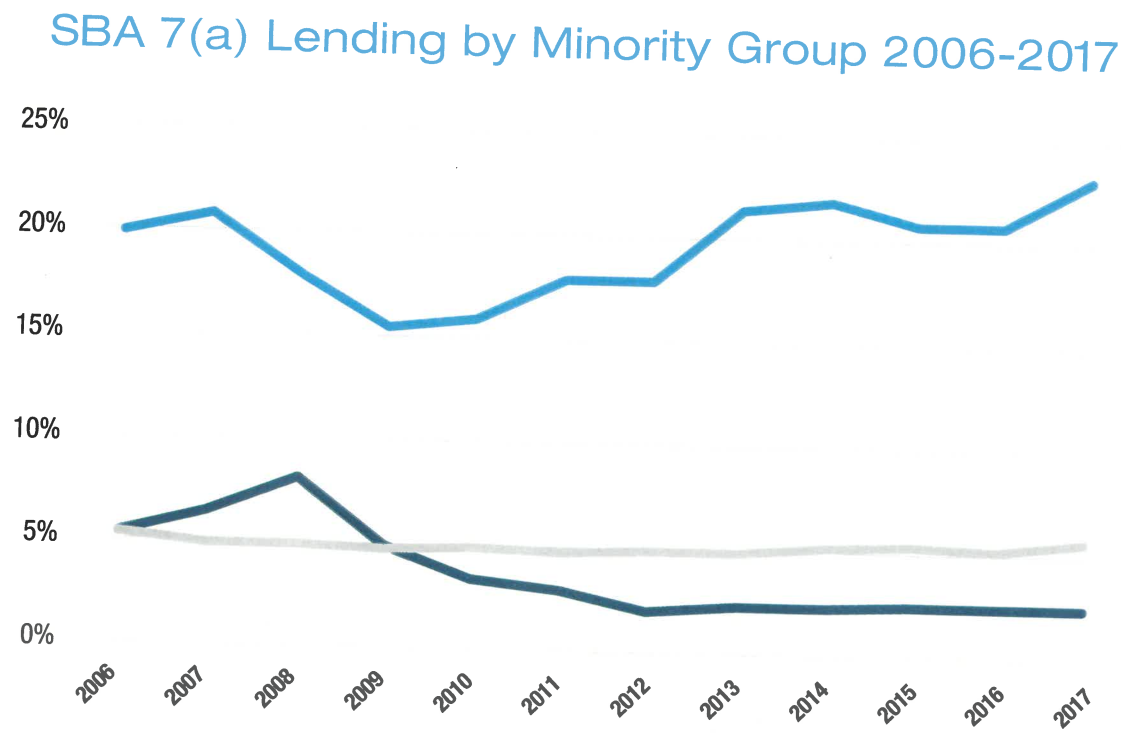


Figure 13: SBA lending to minorities since 2006 (Source: Small Business Administration)

Loan volumes and the impact of income

CRA lending data from 2014 to 2016 indicates that upper-income areas receive a disproportionately large share of loans.[48] In every study area, more than 40% of CRA loans go to areas in which borrowers' incomes exceed 120% of the median family income. In every market except New York City, moderate-income areas receive less than 20% of CRA loans and low-income areas, those with incomes below 40% of the median family income for the MSA, receive less than 10% of CRA loans. In New York City, 24% of loans go to borrowers in moderate-income areas and 12% of loans go to borrowers in low-income areas.

48 FFIEC CRA small business loans to businesses with revenue under $1 million 2014-2016.

Atlanta: Borrowers in upper-income areas where incomes exceed 120% of the median family income for the Atlanta MSA received 44% of the loans made between 2014-2016. Middle-income areas (where income is from 80%-120% of median family income for the MSA) received another 36% of the loans, leaving only 17% for moderate-income areas (incomes are 40%-80% of the median family income), and 3% for low-income areas (incomes below 40% of the median family income).

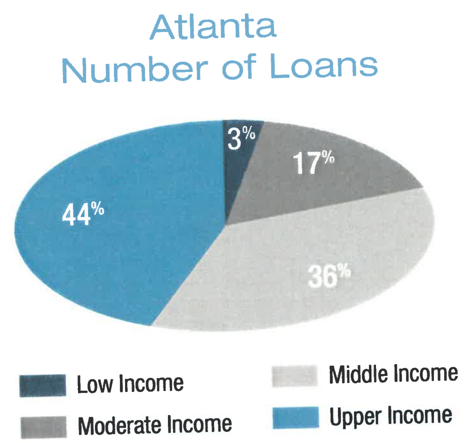


Figure 14: Number of small business loans by income level in Atlanta 2014-2016 (Source: FFIEC CRA small business loans to businesses with revenue under $1 million 2014-2016)

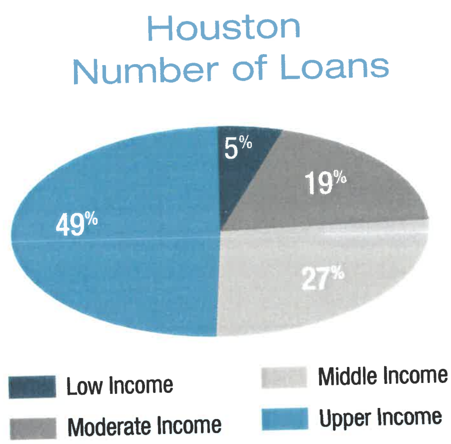


Figure 15: Number of small business loans by income level in Houston 2014-2016 (Source: FFIEC CRA small business loans to businesses with revenue under $1 million 2014-2016)

Houston: Borrowers in upper-income areas where incomes exceed 120% of the median family income for the MSA received nearly half of the loans between 2014-2016. Middle-income areas received another 27% of the loans, leaving 19% for moderate-income areas and only 5% for low-income areas. Looking at this distribution at the county level reveals sharp disparities, with Harris County having the most robust lending in low- and moderate-income (LMI) areas at 33% of total loans made. Ft. Bend County and Montgomery County have very low lending in LMI areas with only 4% and 12% of all loans being made to LMI areas.

Los Angeles: Borrowers in upper-income areas of the Los Angeles MSA received over half the number of loans, with 51%. Middle-income areas received another 26% of the loans, leaving only 18% for moderate-income areas and 5% for low-income areas.

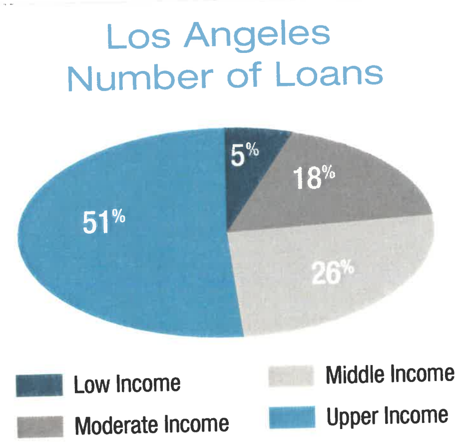


Figure 16: Number of small business loans by income level in Los Angeles 2014-2016 (Source: FFIEC CRA small business loans to businesses with revenue under $1 million 2014-2016)

Milwaukee: Borrowers in upper-income areas received 45% of the loans for the Milwaukee MSA. Middle-income areas received another 40% of the loans, leaving 10% for moderate-income areas and only 5% for low-income areas.

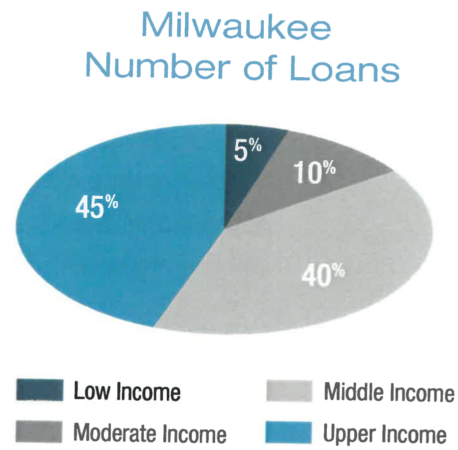


Figure 17: Number of small business loans by income level in Milwaukee 2014-2016 (Source: FFIEC CRA small business loans to businesses with revenue under $1 million 2014-2016)

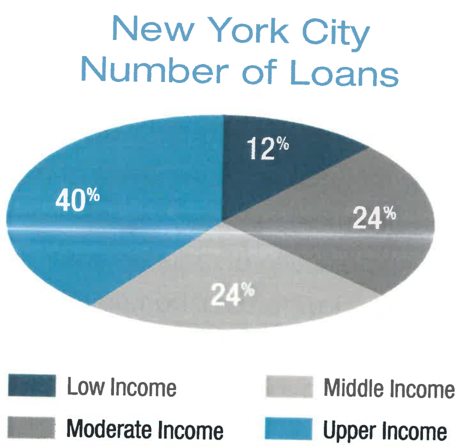


Figure 18: Number of small business loans by income level in New York 2014-2016 (Source: FFIEC CRA small business loans to businesses with revenue under $1 million 2014-2016)

New York City: Borrowers in upper-income areas for the New York MSA received 40% of loans. Middle-income areas received another 24% of the loans, leaving 24% for moderate-income areas and 12% for low-income areas.

Philadelphia: Borrowers in upper-income areas received 44% of the loans for the area of the Philadelphia MSA in Pennsylvania. Middle-income areas received another 37% of the loans, leaving 16% for moderate-income areas and only 3% for low-income areas.

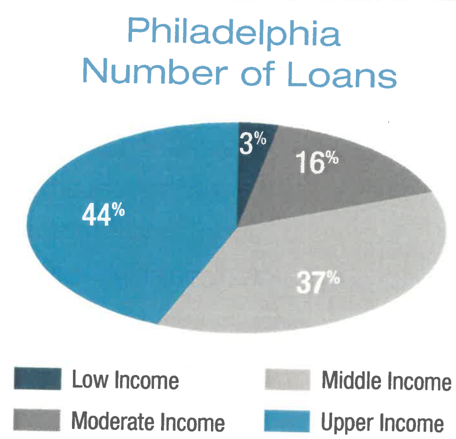


Figure 19: Number of small business loans by income level in Philadelphia 2014-2016 (Source: FFIEC CRA small business loans to businesses with revenue under $1 million 2014-2016)

Washington DC: Borrowers in upper-income areas for the Washington, D.C., MSA received 42% of loans made between 2014-2016. Middle-income areas received another 39% of the loans, leaving only 16% for moderate-income areas and 3% for low-income areas.

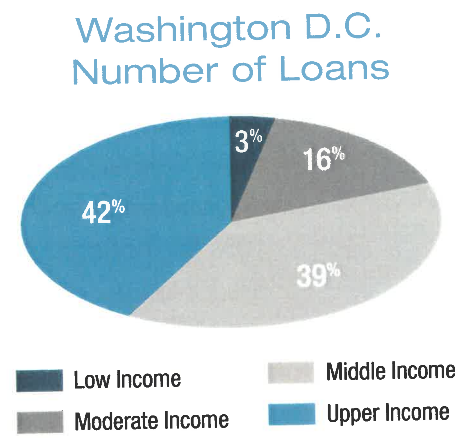


Figure 20: Number of small business loans by income level in Washington, D.C. 2014-2016 (Source: FFIEC CRA small business loans to businesses with revenue under $1 million 2014-2016)

Homeownership

NCRC's report also shows that the low levels of black and Hispanic business ownership and home ownership are interlinked components of the racial wealth divide. Business start-ups often utilize home equity as collateral for lending.[49] Low levels of black and Hispanic homeownership may be an additional impediment for those groups in securing access to credit for small business formation. The combination of reduced small business lending, anemic growth in some regional markets and low rates of homeownership are some of the factors responsible for low rates of black and Hispanic business ownership and are key components in a structural racial wealth divide in the United States.

Branch closures

Due to the Great Recession and the rise in online banking services, there was a broad-scale contraction in the number of bank branch locations from 2009 to 2017, with 9,666 of the nation's 95,379 branches closing.[50] During our research time frame (2008-2016), we found substantial declines in branch locations in the seven metro markets. Because their market sizes are much smaller than the New York metro area, Philadelphia and Atlanta were particularly hard hit. Los Angeles had the lowest rate of branch location closures. The closure of bank branches is particularly damaging for small businesses, which often rely on access to a nearby local branch to make their deposits and exchange cash. Additionally, strong relationships between small businesses and banks still dominate lending decisions.[51] A diminishing number of bank branches can adversely affect the availability of sources for

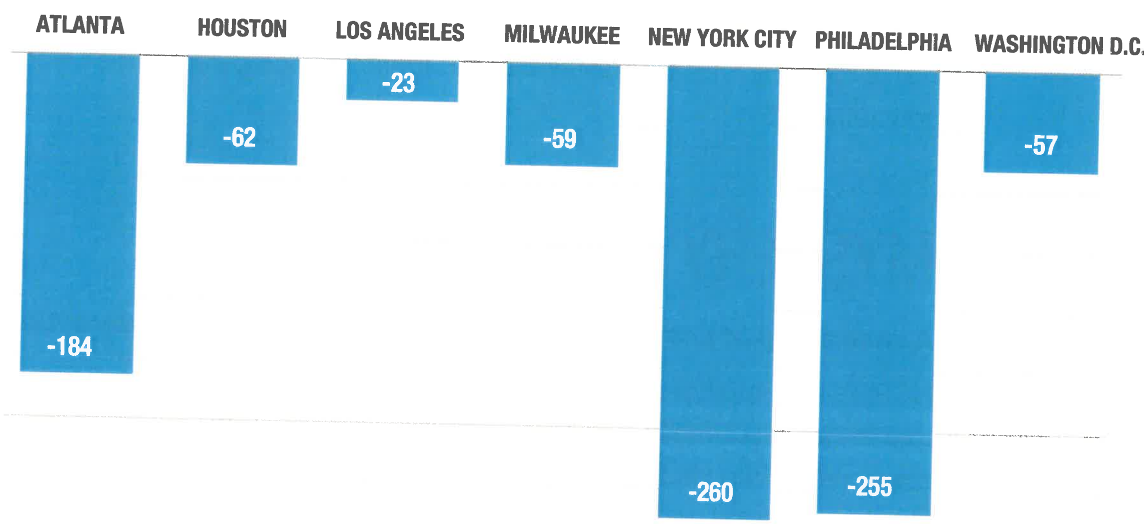
49 Atif Mian & Amir Sufi, *House Prices, Home Equity-based Borrowing, and the US Household Leverage Crisis*, American Economic Review Vol. 101, No. 5 (Aug. 2011).

50 http://maps.ncrc.org/bankdeserts/index.html

51 Allen N. Burger et al., *Small Business Credit Availability and Relationship Lending: The Importance of Bank Organizational Structure*, Finance and Economics Discussion Series 2001-36, Board of Governors of the Federal Reserve System (US) https://bit.ly/2XzHDnD.

small business lending in a market and lead to a persistent decline in local small business lending. Studies show that annual originations can fall by over 9% after a branch closure and remain depressed for up to six years.[52] This amounts to a cumulative loss of $2.7 million forgone small business loans. This decline often persists even after the entry of new banks.[53] The effects are very localized, dissipating within six miles, and are concentrated in low-income and high-minority neighborhoods.[54]

Loss of Branch Locations by Area



Conclusion of seven-city survey

Several factors contributed to the gap in small business ownership for black and Hispanic entrepreneurs. A history of redlining and segregation established separate and unequal economic opportunities for minorities. This hampered wealth-building opportunities like establishing equity through homeownership. Residential segregation dampens home value appreciation in minority neighborhoods. The home mortgage foreclosure crisis and subsequent Great Recession further damaged housing markets and businesses in minority neighborhoods. Despite this, banks have seen the number of deposits they hold soar, while their lending to small businesses sagged. Where are these deposits being invested? Certainly not in neighborhood small businesses, but a clear answer is difficult to find since the current reporting on business lending is so incomplete.

52 Hoai-Luu Q. Nguyen, *Are Credit Markets Still Local? Evidence from Bank Branch Closings,* American Economic Journal: Applied Economics 2019, 11(1): 1-32 http://faculty.haas.berkeley.edu/hqn/nguyen_aej_201901.pdf

53 Kenneth P. Brevoot et al., *Distance Still Matters: The Information Revolution in Small Business Lending and the Persistent Role of Location 1993-2003,* Finance and Economics Discussion Series, Division of Research & Statistics and Monetary Affairs, Federal Reserve Board Washington, D.C. (Dec. 2009) https://www.federalreserve.gov/Pubs/FEDS/2010/201008/201008pap.pdf.

54 Hoai-Luu Q. Nguyen, *Are Credit Markets Still Local? Evidence from Bank Branch Closings,* American Economic Journal: Applied Economics 2019, 11(1): 1-32 http://faculty.haas.berkeley.edu/hqn/nguyen_aej_201901.pdf

The limited data that banks are required to report on their small business lending paint a bleak picture, with low levels of participation in entrepreneurship and lack of access to capital through the traditional banking market, especially for black and Hispanic business owners. In all seven cities, non-Hispanic white and Asian small business ownership is robust, while black and Hispanic small business ownership lag in comparison to their share of the population of the area. The racial business-ownership divide is particularly pronounced when examining businesses with employees. This indicates that the benefits of small business growth in providing employment opportunities in minority communities are not being realized. Banks play a key role in providing capital to increase entrepreneurship and opportunity. However, what is the customer service experience of minorities like when they approach banks for loans? Are there differences in treatment compared to their Non-Hispanic white counterparts?

MYSTERY SHOPPING:

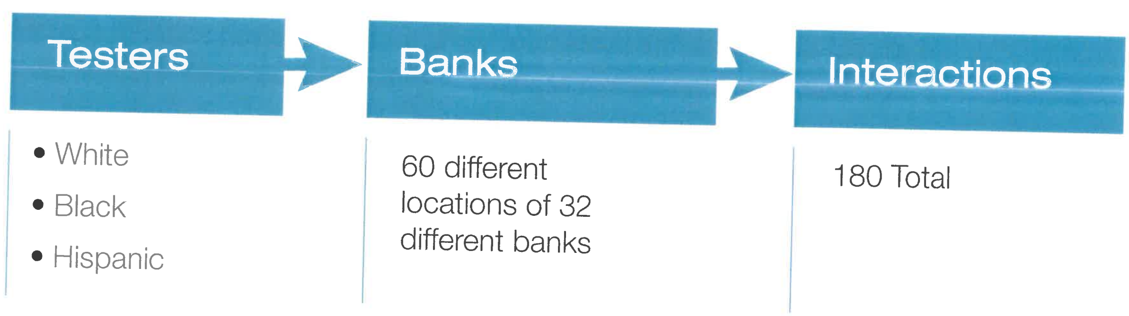
A case study of Los Angeles' small business application interactions

NCRC's look into the small business lending market in these seven large cities revealed the gap in capital accessibility. While analysis of the overall small business marketplace provides some insight into lending activities, these measures do not account for the experience of a small business owner when attempting to obtain a loan.

Assessment of branch-level treatment of potential borrowers, particularly minority entrepreneurs, is vital to understanding the current state of the small business lending marketplace. One way to do this is through controlled testing of customer service interactions utilizing mystery shopping methods. Mystery shopping, or testing, is a commonly used tool for advocates and lending institutions for uncovering problems in banks' business practices and policies. Testing samples customer service interactions by sending mystery shoppers (testers) of different races and/or genders into lending institutions posing as well-qualified borrowers with similar credit profiles. The testers inquire about loan products and then evaluate differences in treatment during their customer service experience. The quality of experience with bank customer service representatives matters, particularly if poor service creates impediments for members of communities that have historically been denied equal access to credit.

NCRC is investigating the potential for differences in the treatment of small business customers during the pre-application (or loan inquiry) stage of the loan application in several cities. NCRC's testing focused on micro businesses, those with fewer than three employees, and smaller dollar loans, under $100,000, which are more likely to support smaller businesses and provide wealth-building opportunities. Thus far, NCRC has tested over 160 bank branch locations in four MSAs for differences in the treatment of testers of different genders and races. At the pre-application stage, the purpose of testing is not to examine disparities in loan denial rates, but to look at differences reflected in product discussion and explanation; suitability questioning; and explanations and disclosures concerning annual percentage rates, fees and the documentation required to receive the loan. NCRC's results further demonstrate the critical need for reliable, primary data to inform regulatory agencies as they work to implement available protections to ensure equal access to credit within the small business lending marketplace.

The case study in this report analyzes the results from testing in the Los Angeles MSA. NCRC selected 32 bank branch locations located in census tracts with less than 25% minority residents. The banks selected represented a broad spectrum in their small business lending patterns to borrowers located in low-to-moderate and middle-to-upper income areas. The tests utilized male testers who were white, black and white Hispanic to assess customer service interactions with bank small business lending specialists (Figure #). A total of 180 interactions (tests) were compared for differences between testers. The purpose of the research was to determine the baseline customer service level that minority and non-minority testers received when seeking information about small business loans.



The study is designed to answer the following research questions: "Are minority and non-minority small business owners with similar economic and business profiles:

Presented with the same information?

Required to provide the same information?

Given the same level of service quality and encouragement?"

Testing methodology

Testers were trained extensively on business and banking terminology and loan products. A profile containing the information testers were to present to the financial institutions during the test were provided. Testers went to the banks with nearly identical business profiles and strong credit histories to inquire about a small business loan product to expand their business. The profiles of all testers were sufficiently strong that on paper, either profile would qualify for a loan. Furthermore, the black and Hispanic testers' profiles were slightly better than their white counterparts in terms of income, assets and credit scores. For each test, three matched testers, one black, one Hispanic and one white visited the same retail bank branch location.

Immediately following the interaction, testers were asked to answer either yes or no about whether specific behaviors, queries and comments were made by bank small business lending specialists. These interactions were categorized in four stages: the initial introduction, information gathering by the bank, information provided to the customer and the close of the discussion. For example, did the bank personnel smile, introduce themselves and offer a seat to the tester during the introduction? Did the bank personnel query the tester regarding credit score, education level and homeownership as part of their information gathering? Did the bank personnel provide information on interest rates, fees and length of wait for approval? Finally, at the close of the interaction, did the bank personnel offer the tester an application or business card, or thank them for coming in?

NCRC and its academic partners [55] applied statistical analysis in evaluating whether differences in the interactions between white testers and testers of color were significant. The chi-square test for independence is a particularly robust way for social scientists to evaluate whether or not there are significant differences in outcomes between groups. The simple "yes or no" categorization of the interactions between bank personnel and testers and the number of interactions observed enabled the results of the tests to achieve a high level of validity.

Testing results

In almost every measure evaluated, white testers received superior customer service by being asked fewer questions about eligibility and receiving more information about the loan product than were their black and Hispanic counterparts. While not all the differences measured were statistically significant, the results outlined below illustrate a troubling picture of the type of service entrepreneurs face when attempting to access additional capital, particularly the difficulties faced by black and Hispanic borrowers. Standard customer service measures and presentation of correct loan information was lacking for *all* testers, regardless of race or ethnicity, though some tests did show significantly worse treatment in the case of the black or Hispanic testers. In addition to differences in treatment categorized below, bank representatives' knowledge of business loan products and terms varied widely, across different banks and even within the same branch. This lack of knowledge made it difficult for the potential borrowers to know what options were available, what were the costs associated with different options and what documentation would be required to apply for the loans.

Greeting

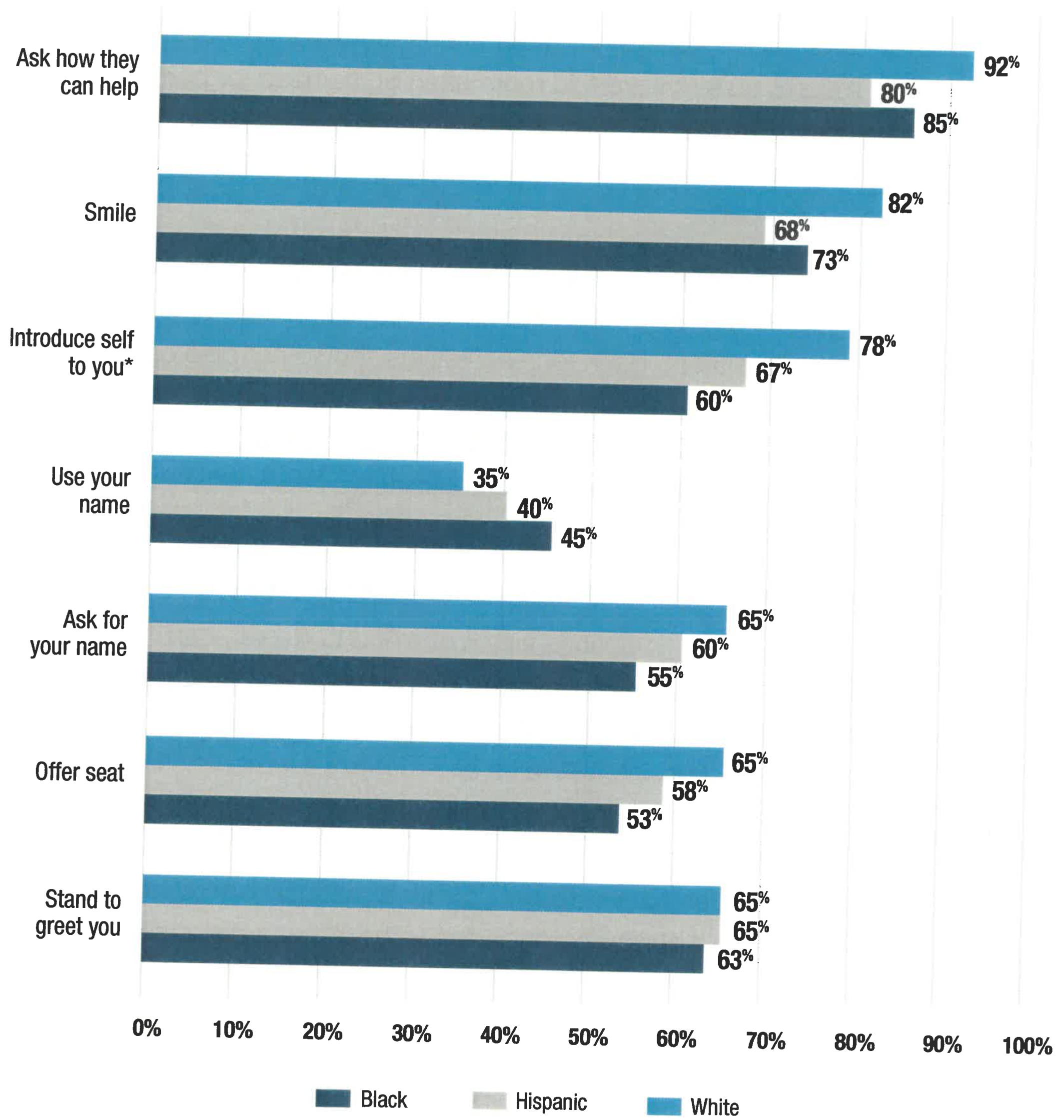
A potential customer entering a bank should expect a basic greeting that includes an introduction, being asked for their name and offered a seat. These are standard customer service practices that make a customer feel valued and encouraged.

During the introductory phase of the interaction, bank personnel introduced themselves to white testers 78.33% of the time, but only 60.00% of the time to black testers, a statistically significant difference ($p < .10$) (Figure #). Other differences in interactions at the introductory

55 Sterling Bone – Utah State Univ.; Glenn Christensen- Brigham Young Univ.; Jerome Williams - Rutgers Univ.

level were not statistically significant in this set of tests, but still illustrate a deficit in the level of service small business borrowers can expect when entering a banking institution. Virtually all of the factors outlined below should be expected to be implemented the majority of the time, especially when working with well-qualified borrowers. Bank personnel offered a seat to less than half of the Hispanic and black testers. Just over half of the bank representatives stood to greet the testers, regardless of their race.

Greeting by Race of Tester



Personal information requested from tester

All testers' business profiles in terms of revenue, profits and time in business were sufficient to be qualified for the loan amount they inquired about without the need for personal collateral or personal financial statements. Nevertheless, in many cases, the bank representative still inquired about testers' homeownership and household (spouse) income and informed testers they would need to provide documentation of their personal financials in addition to their business financials.

In terms of statistical significance, the minority testers were requested to provide more information than their white counterparts in six areas. Black testers were the *only* group asked about their education level, with 3 of the 60 testers asked ($p < .05$). Hispanic testers were asked significantly more often than white and black testers about the amount of their credit card debt (5 versus 1 time, $p < .10$). The Hispanic testers were also asked for their credit report significantly more often than white testers (20 versus 4 times, $p < .001$). Black testers were also asked for their credit report significantly more often than white testers (11 versus 4 times, $p < .001$). Black and Hispanic testers were told more often of the need for personal income tax statements (44 times versus 4 times, $p < .005$), personal financial statements (39 times versus 9 times $p < .005$) and personal W2 forms (17 times versus 0 times $p < .005$)) significantly more often than their white counterparts.

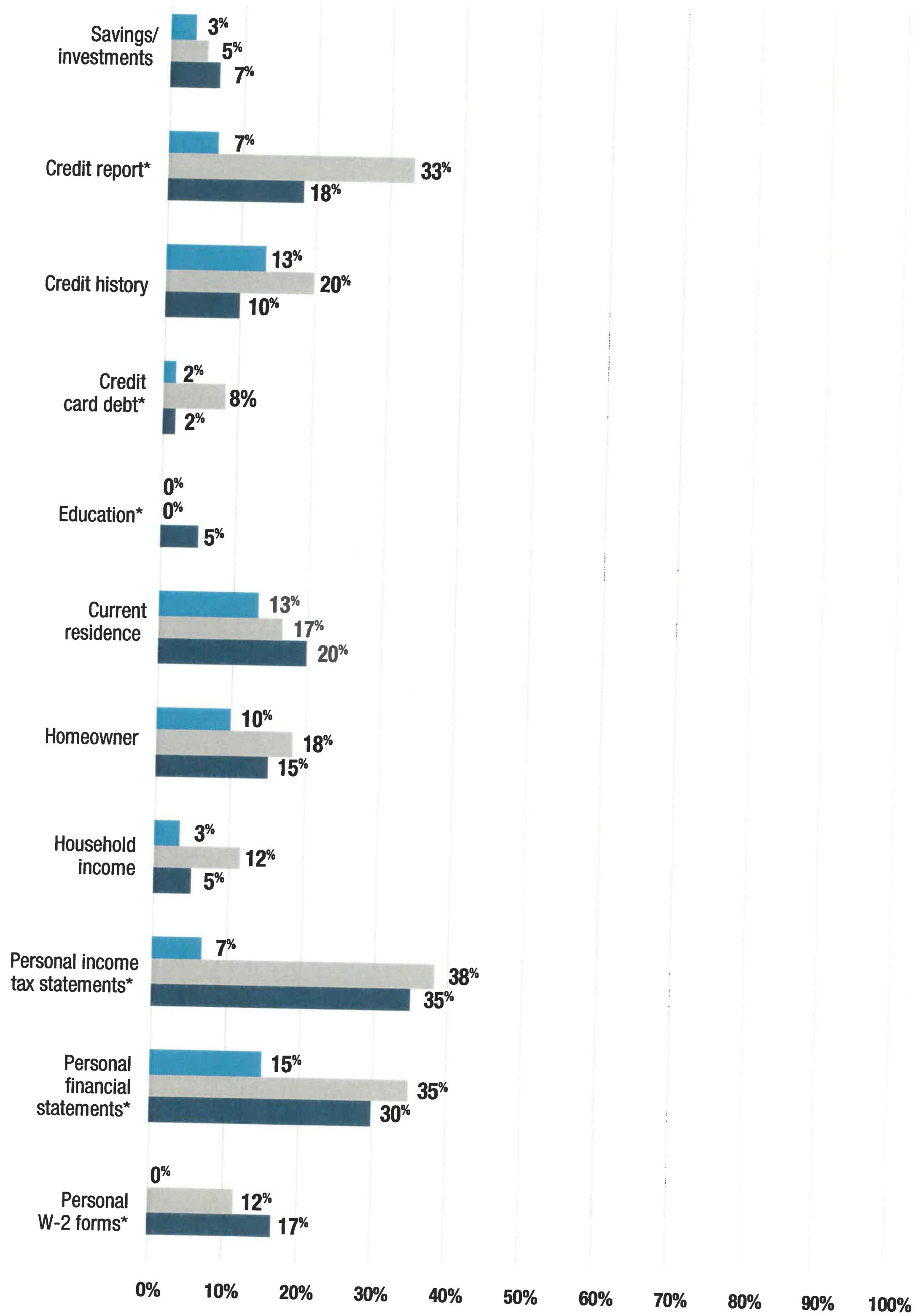
While there could be legitimate business reasons for certain loans to require personal credit and financial information, the information requested from all potential well-qualified borrowers should be consistent. Bank representatives should not disproportionately tell Hispanic and black borrowers about the need for a credit report, inquire about credit card debt or request personal financial documents. There should be no reason to ask about a borrower's education level when applying for a loan for an established business. These actions can discourage borrowers from continuing the loan process and result in a fair lending violation for the banking institution.

Loan information provided by bank representative

When discussing loan options with a qualified borrower, bank personnel should always disclose certain loan factors, so the borrower can be confident they are making an educated choice about loan type and lending institution. A borrower should expect a loan officer to explain about approval times, fees, interest rates and monthly payments. Knowledge and consistency in explaining loan options is an essential customer service tool. Even if a loan officer is not familiar with a particular product, he should always have the ability and willingness to find out the information requested and follow-up with a potential borrower. A potential borrower is unable to make responsible borrowing decisions without being presented with all of the information.

During this case study, white testers were provided with significantly better information about the loan products in three areas: the interest rate, loan fees and the length of time for approval. White testers were provided with the interest rate 83% of the time, while Hispanic testers received the information less than half the time, 44% ($p < .05$). Information on loan fees was provided 64% of the time to white testers, and only 29% of the time to black and 20% of the time to Hispanic testers ($p < .05$). For the approval time, white testers were given this information 58% of the time, while black testers received it 24% and Hispanic testers only 14% of the time ($p < .01$). White testers were also more often told about monthly payment amounts, but this was not a statistically significant difference compared to black and Hispanic borrowers.

Information Asked: Personal Profile & Financials

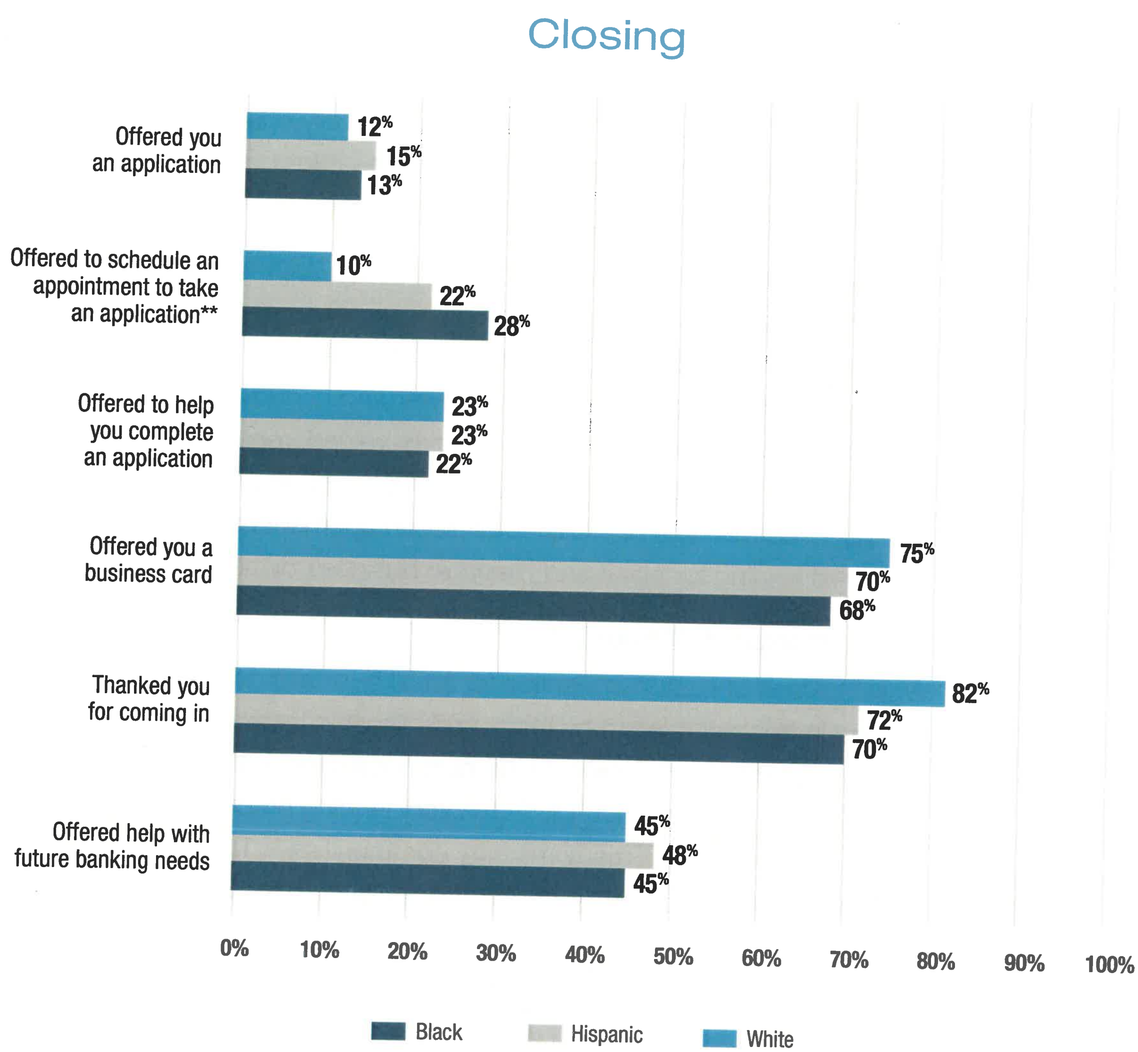


Closing

Similar to the greeting, the way loan specialists end appointments is vital to the overall customer experience. Being thanked for coming in, offered help with future needs and assistance in filling out an application keeps the borrowers from feeling discouraged from the banking process. All testers in this study were well-qualified borrowers for the amounts of loans requested. All testers had exceptional business profiles, incomes and credit scores. There should not be any reason that every single tester was not offered an application, offered help completing an application or offered an appointment to come in and fill out an application.

During this case study, white testers were more often offered a business card and thanked for coming in. Less than one-third of testers in any category was offered an application or offered help in completing an application.

There was a significant difference in whether the small business representative offered to set up an appointment to take the application. White testers were offered this 10% of the time, compared to Hispanic testers at 22% and black testers at 28% of the time ($p < .05$). This is possibly an indicator of superior service and a desire to encourage minority applications, or it is perhaps creating an additional hurdle to the loan process, or even patronizing, depending on the context of the interaction. Regardless of the motivations of the loan officer, this standard business practice should be offered consistently across all borrowers, and certainly in more than 10% to 28% of cases. How bank personnel acted in closing these visits with well-qualified borrowers shows the stark reality of what small business owners face attempting to move forward with a loan.



Conclusion of testing case study

NCRC's testing of small business lending practices shows a pattern of poor customer service regardless of race or nationality. However, there is a disproportionate pattern of worse service for black and Hispanic testers, which could result in discouraging minority entrepreneurs from seeking access to capital. Although every tester presented an excellent credit profile as a well-qualified borrower for the type of loan they were seeking, testers were often provided with inconsistent information about loan terms, what options were available and what documentation was needed. There were additional inconsistencies in the help offered in continuing the loan process. While the introduction portion of the interaction was only statistically significantly different in whether the small business representative introduced themselves, white testers were offered superior service on nearly every measured metric. Minority testers, and especially the Hispanic testers, were asked for more information regarding their economic status and creditworthiness than the white control group. The banking representative made these inquiries after the minority tester had already provided information about their superior financial status.

Additionally, bank representatives offered white testers significantly more information regarding the terms of the loan, fees and approval time – vital information to make an informed, responsible credit choice. There was only one area of service which might be considered superior for the minority testers: the offer to establish an appointment for submission of the application. Even this only happened in 28% of the interactions.

Denial of capital does not just happen at the loan approval stage. The initial customer service interaction is an essential first step in gaining access to capital. Denial of capital can occur because of the way a potential borrower is first greeted, the level of future services offered, the amount of time spent with the borrower and documentation requested of the borrower. When borrowers do not feel encouraged or valued, regardless of their eligibility for a loan, it can result in an effective denial by causing the potential client to decide not to proceed with pursuing this type of credit. This discouragement has historically been a deterrent to traditional lending for black and Hispanic business-owners.[56]

Systemic impact of findings

While the lack of customer service for small business owners, in general, is concerning, the gap in treatment faced by black and Hispanic testers demonstrates that racial bias in financial access is not a thing of the past. Institutional discrimination and segregation have wide-ranging social impact. Discriminatory lending practices, such as redlining, systematically denied credit access in many minority communities.[57] The effects of these practices have continued to negatively impact the ability of these communities to build wealth for generations. Minority and female business owners consistently face both higher rates of denial and higher credit costs when seeking access to credit.[58]

Differences in treatment faced by minority borrowers are not just bad for the country's economic growth and morality; it's also illegal. ECOA prohibits discrimination in *any* aspect of consumer or commercial credit transactions, including business credit.[59] Discrimination includes failing to provide information or services; providing different information or services regarding any aspect of the lending process, including credit availability, application procedures or lending standards; and discouraging or selectively encouraging applicants with respect to inquiries about or applications for credit. Differences in treatment or services can result in a fair lending violation, regardless of the intent of the employee. Additionally, banks have a legal obligation under CRA to meet the banking needs of the communities they serve, including small business borrowers.

56 *See supra* Literature Review: Racial Bias in Financial Market

57 Mehrsa Baradaran, *The Color of Money: Black Banks and the Racial Wealth Gap* (2017); Richard Rothstein, *The Color of Law: A Forgotten History of How our Government Segregated America* (2017).

58 *See generally* David G. Blanchflower et al., *Discrimination in the Small Business Credit Market,* Review of Economics and Statistics, vol. 85 (4) (Aug. 2002); Ken Cavalluzzo & John Wolken, *Small Business Loan Turndowns, Personal Wealth, and Discrimination*, Journal of Business, vol. 78, issue 6, 2153-2178 (2005); Elizabeth Asiedu et al., *Access to Credit by Small Businesses: How Relevant Are Race, Ethnicity, and Gender?*, American Economic Review: Papers and Proceedings 102(3): 523-637 (2012).

59 15 U.S.C. § 1691 et seq.

NCRC is not the only organization to uncover these troubling findings in the lending marketplace. A 2018 study by the University of California found that African American and Latino borrowers face lending discrimination at nearly every turn. Minority borrowers are often charged 5.6 to 8.6 basis points higher interest on mortgage refinance loans, resulting in annual disparities of $250 million to $500 million. [60] Reveal's investigative reporting exposed the prevalence of modern-day redlining in 61 major U.S. cities, fifty years after the Fair Housing Act outlawed it.[61] However, both of these organizations had access to rich data sources available to them through HMDA reporting requirements, substantially aiding them in uncovering these widespread issues. If this is the current landscape of the mortgage lending market, can there be much doubt that similar disparities occur in the small business lending market? The difference is that there is no robust data set which would allow a more in-depth analysis of small business lending. Without this robust data, lenders can brush off existing research as "anecdotal" and dodge their accountability by criticizing research techniques. Without access to a consistent, standardized and publicly available dataset, it is virtually impossible to determine the extent to which well-qualified business owners, particularly those of color, are routinely shut out of the small business lending market.

THE PATH FORWARD

Despite having only a limited amount of public data, NCRC's analysis shows a pattern of disinvestment in small businesses and a wide divide in black and Hispanic business ownership relative to the population of these groups. Furthermore, NCRC's testing indicates that problems in access to information exist at the loan inquiry stage and that black and Hispanic prospective borrowers significantly and disproportionately encounter these issues. This lack of information can result in an effective denial of credit by discouraging the borrower before they even apply.

Congress recognized the need to make financial institutions accountable to the public for their mortgage lending practices over four decades ago. Following the 2008 financial crisis, there was broad recognition that this same level of accountability must apply to the small business lending market. It is the CFPB's statutory responsibility to promote fair, accessible and transparent credit markets that provide the capital availability that is critical to small businesses and entrepreneurs. The Bureau cannot fulfill its mission, nor can meaningful research and advocacy occur, until the public has access to the data required by Section 1071, and lending institutions are obligated to pay attention to their compliance requirements under ECOA.

60 Robert Bartlett et al., *Consumer-Lending Discrimination in the Era of FinTech*, UC Berkley Public Law Research Paper *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3063448.

61 Aaron Glantz & Emmanuel Martinez, *For people of color, banks are shutting the door to homeownership*, Reveal News (Feb. 15, 2018) https://bit.ly/2W0OJRK.

In addition to greater data availability, it is vital that CRA examinations include consideration of the type of business loans offered, instead of aggregating term loans, credit cards and lines of credit into a single category. Examiners must be rigorous in their evaluations of lending and services tests.

It is also the responsibility of lending institutions to engage in a concerted effort to improve the experience of well-qualified borrowers, both to meet their CRA obligations and to ensure they are not missing out on profitable financial opportunities. Banks must develop a comprehensive approach to addressing fair lending issues and building customer service standards in their small business lending procedures. Doing so will greatly improve legal compliance and growing efforts to become socially responsible lending institutions.

Stakeholders should also engage in advocacy around improving technical assistance for entrepreneurs looking to raise capital, particularly women and minority business owners. Funding for Women Business Centers (WBCs) and Community Development Financial Institutions (CDFIs) should be increased nationwide, particularly in areas where capital could be particularly hard to access.

Not only is entrepreneurship one of the most common pathways to building wealth, but small businesses are also an integral component of America's economy. They play a vital role in driving economic activity and job creation. Access to credit is essential for every business to succeed, but regulators, advocates and entrepreneurs continue to have little-to-no insight into how lending intuitions are handling the credit needs of the market. Without robust reporting requirements and concerted effort from the banking industry, small businesses will continue to struggle and the wealth divide will continue to grow.